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*This announcement, for which the directors of China Asean Resources Limited collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the Growth Enterprise Market of the Stock Exchange of Hong Kong Limited for the purpose of giving information with regard to China Asean Resources Limited. The directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and beliefs 1. the information contained in this announcement is accurate and complete in all material respects and not misleading; 2. there are no other matters the omission of which would make any statement in this announcement misleading; and 3. all opinions expressed in this announcement have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.*

# CHINA ASEAN RESOURCES LIMITED
# 神州東盟資源有限公司

*(Incorporated in Bermuda with limited liability)*
**(Stock Code: 8186)**

## ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2011

**Characteristics of the growth enterprise market (the "Gem") of the Stock Exchange of Hong Kong Limited (the "Stock Exchange")**

**Gem has been positioned as a market designed to accommodate companies to which a higher investment risk may be attached other than companies listed on the stock exchange. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. the greater risk profile and other characteristics of Gem mean that it is a market more suited to professional and other sophisticated investors.**

**Given the emerging nature of companies listed on Gem, there is a risk that securities traded on Gem may be more susceptible to high market volatility than securities traded on the main Board of the stock exchange and no assurance is given that there will be a liquid market in the securities traded on Gem.**

Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this announcement, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.

This announcement, for which the directors (the "Directors") of China Asean Resources Limited collectively and individually accept full responsibility, includes particulars given in compliance with the GEM Listing Rules for the purpose of giving information with regard to the Group. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief: (1) the information contained in this announcement is accurate and complete in all material respects and not misleading; (2) there are no other matters the omission of which would make any statement in this announcement misleading; and (3) all opinions expressed in this announcement have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

## FINAL RESULT

The board of directors (the “Board”) of China Asean Resources Limited (the “Company”) herein announces the consolidated results of the Company and its subsidiaries (collectively referred to as the “Group”) for the year ended 31 December 2011, together with the comparative audited consolidated results for 2010, as follows:

# China Asean Resources Limited

# 神州東盟資源有限公司

(Incorporated in Bermuda with limited liability)

(Stock Code: 8186)

## Annual Report 2011

## CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET (“GEM”) OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE “STOCK EXCHANGE”)

GEM has been positioned as a market designed to accommodate companies to which a higher investment risk may be attached other than companies listed on the Stock Exchange. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board of the Stock Exchange and no assurance is given that there will be a liquid market in the securities traded on GEM.

Hong Kong Exchanges and Clearing Limited and the Stock Exchange take no responsibility for the contents of this report, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this report.

This report, for which the directors (the “Directors”) of China Asean Resources Limited collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on GEM for the purpose of giving information with regard to the Group. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief: (1) the information contained in this report is accurate and complete in all material respects and not misleading; (2) there are no other matters the omission of which would make any statement in this report misleading; and (3) all opinions expressed in this report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

# Contents

# Corporate Information

## BOARD OF DIRECTORS

**Executive directors**

YU Xiao Min *(Chairman)*
LEUNG Sze Yuan, Alan
GONG Ting
CHULTEMSUREN Gankhuyag
ZENG Lingchen

**Independent non-executive directors**

TAM Wai Leung, Joseph
WEN Huiying
ZHANG Ying

## AUDIT COMMITTEE

TAM Wai Leung, Joseph *(Chairman)*
WEN Huiying
ZHANG Ying

## NOMINATION COMMITTEE

TAM Wai Leung, Joseph *(Chairman)*
LEUNG Sze Yuan, Alan
ZHANG Ying

## REMUNERATION COMMITTEE

ZHANG Ying *(Chairman)*
LEUNG Sze Yuan, Alan
TAM Wai Leung, Joseph

## COMPLIANCE OFFICER

GONG Ting

## COMPANY SECRETARY

LAM Kam Ming, Simon

## BERMUDA ASSISTANT SECRETARY

Appleby Services (Bermuda) Ltd.

## QUALIFIED ACCOUNTANT

LAM Kam Ming, Simon

## AUDITORS

KLC Kennic Lui & Co. Ltd.
*Certified Public Accountants (Practising)*

## HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

8th Floor, Teda Building
87 Wing Lok Street, Central, Hong Kong

## REGISTERED OFFICE

Canon's Court, 22 Victoria Street
Hamilton HM12

## HONG KONG SHARE REGISTRAR

Computershare Hong Kong Investor Services Ltd.
Rooms 1712-16, 17th Floor, Hopewell Centre
183 Queen's Road East, Hong Kong

## PRINCIPAL BANKER

Bank of China (Hong Kong) Limited

## GEM STOCK CODE

8186

## WEBSITE ADDRESS

www.chinaaseanresources.com

# Chairman's Statement

## RESULT ANALYSIS

- For the year ended 31 December 2011, we recorded turnover of approximately HK$204,000 (2010: HK$2,960,000) mainly from the sale of wood products in Cambodia and coal trading business in PRC. The loss attributable to our equity shareholders was approximately HK$61,312,000 (2010: Loss of HK$33,907,000). Changes from the previous year were primarily due to the following reasons:

    (a) Decrease in sales of wood product because of widespread flooding in Cambodia;

    (b) Increase in finance costs of approximately HK$8.7 million associated with the imputed interest expense charge on the convertible bonds outstanding; and

    (c) Increase in administrative expenses, including depreciation and amortisation costs, salaries and allowances.

- For the year ended 31 December 2011, the loss per share was 3.22 Hong Kong cents (2010: loss per share of 6.64 Hong Kong cents).

- Our directors do not recommend the payment of a final dividend for the year ended 31 December 2011 (2010: Nil).

## BUSINESS REVIEW

### Wood products manufacturing and plantation

The construction of the export wood flooring factory with a designed capacity of 10,000 cubic metres per annum was completed in May 2011. However, production and transportation were seriously and adversely affected by widespread flooding in Cambodia during the year, which was the worst flooding in Cambodia in the last 11 years and severely damaged access roads to the forests owned by the Group. In addition, the first shipment of wood flooring materials, which was ready in November 2011, experienced unexpected delays in custom clearance and was eventually shipped only in 2012. As such, only minimal sales were derived from the domestic sale of low-grade sawn timber for the year ended 31 December 2011.

On the other hand, we cleared 1,500 hectares of forestland in 2011 and began the field planting of rubber seedlings on the cleared land in June 2011 (at the start of the wet season). However, the abovementioned widespread flooding also caused delays in the delivery of rubber seedlings to the planting fields and, as a result, we planted only a total of 1,050 hectares against a planting target of 1,500 hectares contractually agreed with the Government of Cambodia. Government officials, after inspecting our rubber plantation, acknowledged that the delays in field planting resulted from the widespread flooding and did not enforce own contractual obligation.

### Coal logistics and trading

As part of the strategy to diversify our income base and take advantage of the continued growth in the PRC economy, we announced the acquisition of Inner Mongolia Huayue Mining Company Limited ("IM Mining") in January 2011 and obtained control over IM Mining through a contractual arrangement in June 2011. As at the date of this report, IM Mining has started generating revenue from its coal trading activities.

# Chairman's Statement

**Plastics and wood products manufacturing**

In October 2011, we completed the acquisition of 30% of the issued share capital of Live Rise Technology Limited ("LRT"), which is principally engaged in the design and manufacture of medium-to-high-end wooden and plastic household and related products, industrial product components as well as research in and development of plastic materials in the PRC. In March 2012, we entered into an acquisition agreement to acquire a further 20% equity interest in LRT. As a result, LRT will become a jointly controlled entity owned as to 50% by the Group upon completion of the said acquisition agreement. As at the date of this report, LRT has commenced trial operations and commercial production is expected to commence in the second quarter of 2012.

## BUSINESS OUTLOOK

**Wood products manufacturing and plantation**

Based on sales orders on hand, we expect production and export sale of wood flooring products to increase in 2012. In addition, we have inter-cropped the rubber plantation with cassava for a total plantation area of approximately 300 hectares and the cassava fruit is expected to be harvested in mid-2012.

**Coal logistics and trading**

We intend to continue to further develop our coal logistics and trading businesses and expand into other coal related operations when suitable opportunities arise.

**Plastic and wood products manufacturing**

With the expected commencement of commercial production in the second quarter of 2012, we anticipate LRT to significantly contribute to our income and financial performance in 2012.

# Management Discussion and Analysis

## FINANCIAL REVIEW

The Group recorded for the year ended 31 December 2011 a turnover of approximately HK$204,000 (2010: HK$2,960,000) and a loss attributable to equity shareholders of the Company of approximately HK$61,312,000 (2010: loss of HK$33,907,000).

Selling, distribution and administrative expenses for the year ended 31 December 2011 increased by approximately 16.5% from HK$44,778,000 to HK$52,167,000 as compared with the previous year primarily due to the increase in administrative expenses incurred such as professional fees for acquisitions, depreciation and amortisation costs, salaries and allowances.

As (Cambodia) Tong Min Group Engineering Co., Ltd., a subsidiary of the Company, was not able to meet the profit guarantee for the three years ended 31 December 2011 pursuant to the relevant sale and purchase agreement dated 25 July 2007, the Company has requested the vendors to dispose of the 18.8 million shares of the Company held by them and pay the Company the net proceeds from such disposal as compensation in respect of the aforesaid sale and purchase agreement.

In January 2011, the Group raised net proceeds of approximately HK$62 million in a placement of new shares under the general mandate of the Company. The proceeds have been used for the acquisition of IM Mining and the construction of the Group's wood flooring factory as well as investment in the Group's rubber plantation in the Kingdom of Cambodia.

IM Mining has satisfied the HK$5,000,000 profit guarantee for the year ended 31 December 2011 provided by the vendor pursuant to the relevant sale and purchase agreement dated 28 January 2011.

The basic loss per share for the year ended 31 December 2011 was approximately 3.22 Hong Kong cents (2010: loss per share of 6.64 Hong Kong cents).

As at 31 December 2011, the Group did not have any bank borrowings (2010: Nil).

## CAPITAL STRUCTURE

As at 31 December 2011, the total number of issued ordinary shares and the issued share capital of the Company were 2,623,951,000 (2010: 778,540,000) and approximately HK$131,198,000 (2010: HK$38,927,000), respectively.

## CAPITAL MANAGEMENT

The Group's primary objectives in managing capital are to safeguard the Group's ability to continue as a going concern, to provide returns for shareholders and benefits for other stakeholders, and to maintain an optimal equity structure to reduce its cost of capital.

The Group monitors capital on the basis of the gearing ratio which is calculated as total liabilities divided by total assets. The Group's strategy is to maintain the gearing ratio within 100% which is consistent to that of prior years. In order to maintain the ratio, the Group will seek to balance its overall capital structure through the payment of dividends, issue of new shares, repurchase of shares, raise new debt financing or repayment of existing debts.

The gearing ratios as at 31 December 2010 and 2011 are set out below. The Board, considering the cost of capital and the risks associated with each class of capital, believes the Group's existing gearings ratio is reasonable,

| | **2011**<br>***HK$'000*** | 2010<br>*HK$'000* |
|---|---|---|
| Total liabilities | **46,140** | 196,367 |
| Total assets | **1,087,378** | 929,622 |
| Gearing ratio | **4.24%** | 21.1% |

# Management Discussion and Analysis

## FINANCIAL RESOURCES, BORROWINGS, BANKING FACILITIES AND LIQUIDITY

As at 31 December 2011, the Group had a total asset value of approximately HK$1,087,378,000 (2010: HK$929,622,000) which was financed by current liabilities of approximately HK$46,140,000 (2010: HK$21,559,000) and equity of the Company of approximately HK$1,041,238,000 (2010: HK$733,255,000).

The current assets of the Group amounted to approximately HK$30,652,000 (2010: HK$34,283,000) of which approximately HK$2,503,000 (2010: HK$15,441,000) was cash and bank deposits. The current liabilities of the Group amounted to approximately HK$46,140,000 (2010: HK$21,559,000) of which approximately HK$43,703,000 (2010: HK$21,246,000) represented other payables and approximately HK$1,899,000 (2010: HK$313,000) was a provision for income tax. There were no outstanding bank borrowings of the Group as at 31 December 2011 (2010: Nil). During the year, the Group did not enter into any banking facilities nor were any of the Group's buildings and leasehold land assets pledged to any banks (2010: Nil).

The Group generally finances its operations with internally generated resources and to place surplus funds with banks on short-term deposits.

The net asset value per share of the Company as at 31 December 2011 was approximately HK$0.40 (2010: HK$0.94).

## CAPITAL COMMITMENTS, SIGNIFICANT INVESTMENTS AND MATERIAL ACQUISITIONS AND DISPOSALS

In January 2011, the Group announced the acquisition of IM Mining and obtained control thereof in June 2011.

In July 2011, the Group entered into an acquisition agreement to acquire 50% of the issued share capital of a company engaged in the coal trading business in the PRC. In December 2011, the Group announced that it had mutually agreed with the vendor to terminate the acquisition agreement by entering into a deed of termination.

In July 2011, the Group entered into an acquisition agreement to acquire 30% of the issued share capital of LRT and the acquisition was subsequently completed in October 2011.

As at 31 December 2011, the Group had outstanding capital commitments of approximately HK$14,280,000 (2010: HK$3,394,000).

## RISK MANAGEMENT

Risk management is an integral part of the operations management. The Group has put in place an effective risk management framework to ensure risks undertaken are properly managed. Operating in the natural resources business, the Group faces a wide spectrum of risks, the most important types being credit, liquidity, market and operational risks. The Group's risk management framework includes the establishment of policies and procedures to identify and analyse risks and to set appropriate risk control limits. The risk management policies and major control limits are approved by the board of directors. Risk limits are monitored and controlled continually by an internal control department by means of reliable and up-to-date management information systems. The management of various types of risks are well coordinated at the Board level.

# Management Discussion and Analysis

## CREDIT RISK

Credit risk is the risk that financial losses arise from the failure of customers or counterparties to meet obligations under contracts. It arises principally from mergers and acquisitions as well as trading. The Group has dedicated policies and procedures in place to control and monitor the risks from all such activities.

The internal control department function is mandated to provide centralized management of credit risk through:

— formulating credit policies on approval process, post-disbursement monitoring and the collection process;

— issuing guidelines on setting of credit payment terms to customers and acceptability of warranties, undertakings or deposits from customers;

— reviewing the repayment of account receivable by aging analysis;

— monitoring the largest exposures by customers;

— providing advice and guidance to business units on various credit-related issues.

The Group undertakes ongoing credit analyses and monitoring at several levels. Special attention is paid to long-outstanding trade receivable. Provisions for impairment losses are made semi-annually, as required. Collection and recovery units are established by the Group to provide customers with support in order to maximize recoveries of long-outstanding trade receivables. Management regularly performs an assessment of the adequacy of the impairment provisions by conducting a detailed review of the aging analyses together with comparing performances and past due statistics against historical trends.

## LIQUIDITY RISK

Liquidity management is essential to ensure the Group has the ability to meet its obligations as they fall due. It is the Group's policy to maintain a strong liquidity position by properly managing the liquidity structure of its assets, liabilities and commitments so that cash flows are appropriately balanced and all funding obligations are comfortably met.

The Group has established policies and procedures to monitor and control its liquidity position on a monthly basis by adopting a cash flow management approach. The approach seeks to forecast committed cash inflows and outflows of the business which indicate the financing needs for any period within the scope of the forecast conditions.

## MARKET RISK

Market risk is the risk that foreign exchange rates, interest rates, market prices, natural, political and regulations and equity, and indices will move and, in turns effect the results of the Group. The objective of the Group's market risk management is to manage and control market risk exposures in order to optimize returns.

# Management Discussion and Analysis

**Foreign exchange risk**

The Group exposures to market risk primarily arises in respect of foreign currency risk. The Group operates mainly in Hong Kong, Cambodia and the PRC and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the RMB and the US dollar. Foreign exchange risk arises from future commercial transactions, recognized assets and liabilities and net investments in foreign operations.

The Group does not hedge its foreign currency risks with the RMB, however, management monitors exposures and will consider hedging significant foreign currency positions should the need arise. The Group does not hedge its foreign currency risks with the US dollar as the rate of exchange between the Hong Kong dollar and the US dollar is pegged and fixed within a range.

As at 31 December 2011, the Group had no outstanding hedging instruments (2010: Nil).

**Interest rate risk**

The Group's interest rate risk arises primarily from bank loans chargeable at variable rates that expose it to uncertainties on interest expense and bonds chargeable at fixed rates that provide a comfort zone in controlling the overall interest expenses. The Group's policy is to minimize borrowings at variable interest rates in its interest rate profile.

**Market price risk**

Market price risk is the risk that arises from the wood product and mineral resources price volatility and are affected by numerous factors that cannot be controlled, including market demand and supply for wood, wood products and coal, illegal logging, availability of coal from coal wholesalers, economic growth rates, trade policies, and prevailing fuel and transportation costs.

In addition, for wood and wood products, industry-wide increases in the supply of logs during a favourable price period can also lead to downward pressure on prices through oversupply. Oversupply and lower prices may also result from illegal logging activities or decreased government enforcement of logging restrictions. If market prices for wood products were to decline, it could have a material adverse effect on our business, financial condition and results of operation.

**Natural risk**

The Group owns forest assets and has been cultivating rubber tree, acacia and jatropha curcas plantations. Natural disasters, inclement weather conditions and other acts of God which are beyond the Group's control may adversely affect the growing of the plantations and generally the ability to extract value from owning these assets. The Group's business, operating results and financial condition may be adversely affected if natural disasters, contagious diseases, bad weather conditions and other acts of God occur.

# Management Discussion and Analysis

**Political and government regulations risk**

Political risk mainly relate to possible political instability in Cambodia which may have an adverse effect on the Group's business, operating results and financial investment. The recent history of Cambodia has been characterized by political instability and civil war, with fighting between different factions until as recently as 1997. It is only in the past decade that Cambodia has regained some measure of political stability with Prime Minister Samdech Hun Sen and his Cambodian People's Party rising to political dominance.

The Group is exposed to government regulation risks primarily arising from its operations in Cambodia due to a wide range of environmental laws and regulations, which regulate, among other things, forestry and plantation activities, including harvesting, land clearing for forests, planting in cleared areas and the emission or discharge of pollutants or wastes into the soil, water or atmosphere.

Environmental laws and regulations have generally become more stringent in recent years in Cambodia and could become even more stringent in the future. We may be required to obtain additional licenses before we are permitted to occupy certain premises and/or carry out certain activities.

Any tightening of the requirements prescribed by environmental laws and regulations in Cambodia, or changes in the manner of interpretation or enforcement of such existing laws or regulations, could adversely impact our operations by increasing our compliance costs and potential liabilities in connection with such laws and regulations, including additional capital or operating expenditures, which may place additional demands on our liquidity and adversely affect our results of operations.

## INVESTMENT RISK

The Group's investment exposure mainly relates to long-term equity investments in subsidiaries and associates set out in Notes 38 and 21, respectively, to the financial statements. All equities held are for long term investment and not subject to volatility from short term fluctuations.

## OPERATIONAL RISK

Operational risk is the risk of losses arising through fraud, unauthorized activities, errors, omissions, inefficiencies, system failures or external events. These risks are inherent to every business organization and cover a wide spectrum of issues. The terms 'errors', 'omissions' and 'inefficiencies' include process failures, systems/machine failures and human error.

The objective of the Group's operational risk management is to manage and control operational risk in a cost effective manner within targeted levels of operational risk consistent with the Group's risk tolerance levels as discussed and determined by the Board from time to time.

A formal governance structure provides oversight over the management of operational risks. In each of the Group's subsidiaries, business managers are responsible for maintaining acceptable levels of internal control, commensurate with the scale and nature of operations. They are responsible for identifying and assessing risks, designing controls and monitoring the effectiveness of these controls.

## EMPLOYEES' INFORMATION AND BENEFIT SCHEMES FOR EMPLOYEES

As at 31 December 2011, the Group had 196 (2010: 96) employees. The total amount of employee remuneration, including that of directors, for the years ended 31 December 2010 and 2011 were approximately HK$10,626,000 and HK$12,111,000, respectively.

The Company has granted share options in respect of approximately 10,286,000 shares, 9,257,000 shares and 13,300,000 shares to employees of the Group in 2007, 2008 and 2010 at exercise prices of HK$1.75, HK$0.815 and HK$0.365 per share, respectively. Subsequently, options for approximately 1,029,000 shares were granted to a former director and options for approximately 7,557,000 shares were granted to senior employees were cancelled due to resignations. On 13 October 2011, all the outstanding options issued in 2007 expired and were lapsed.

# Directors and Senior Management

## DIRECTORS

### Executive directors

**Ms. Yu Xiao Min**, aged 42, is an Executive Director and the Chairman of the Company. Ms. Yu has substantial management experience in the manufacturing sector and import and export of timber in South and North America, Hong Kong and the PRC. Ms. Yu holds a master degree in business administration and a bachelor degree in economics and management.

**Mr. Leung Sze Yuan**, Alan, aged 43, is an Executive Director of the Company. Mr. Leung is a member of the Institute of Chartered Accountants in Australia and the Hong Kong Institute of Certified Public Accountants. He holds a bachelor degree in commerce from the University of New South Wales, Australia and a master degree in business administration from the Chinese University of Hong Kong. Before joining the Company in 2007, Mr. Leung was an associate director of AIG Investment Corporation responsible for private equity investments in Asia.

**Mr. Zeng Lingchen**, aged 32, is an Executive Director of the Company. Mr. Zeng has held management positions in two rubber plantation companies in the PRC and possesses substantial experience in plantation of rubber trees and sale of rubber products. Mr. Zeng holds a bachelor degree in environmental engineering from Satakunta Polytechnic, Finland.

**Mr. Gong Ting**, aged 32, is an Executive Director of the Company. Mr. Gong is an entrepreneur with diversified business interests in many sectors including agricultural, information technology, natural resources and real estate and has extensive networks in the PRC and Mongolia. Mr. Gong is a director of the Cixi Xiaolin Business Association and was awarded the title of Honoured Citizen of Yixing City in 2008.

**Mr. Chultemsuren Gankhuyag**, aged 59, is an Executive Director of the Company. Mr. Chultemsuren has substantial experience in the natural resources business including forestry and mine exploration in Europe and Mongolia. Prior to joining the Company, he had been the chief geologist of a coal mining company in Mongolia, the chief geologist of Ulan Bator Geographic Authority of Mongolia, a coal expert in the Ethnic Development Department of Mongolia and a senior researcher in the Minerial Resources Department of the Geographic and Valuable Mineral Resources Research Institute of Mongolia. Mr. Chultemsuren has been awarded the "Model Geologist Medal" and the "Glory Medal for Modeled Labour" in Mongolia and holds a bachelor's degree in geology from Eotvos Lorand University in the Republic of Hungary. He is fluent in the Mongolian language, Hungarian, Russian and English.

### Independent non-executive directors

**Mr. Tam Wai Leung**, Joseph, aged 46, is an Independent Non-Executive Director of the Company. Mr. Tam is the President of the Executive Committee of the Hong Kong Institute of Business Management and the Macau Association of Higher Education. He holds a doctor of philosophy degree from Preston University in the United States and is a fellow member of the Institute of Cost and Executive Accountants in the United Kingdom and the Association of Taxation and Management Accountants in Australia.

**Mr. Zhang Ying**, aged 44, is an independent non-executive Director of the Company. Mr. Zhang has 15 years working experience in financial management and internal control gained from his employment at national state-owned banks in the PRC. Mr. Zhang is currently the head of finance of a services company in the PRC. Mr. Zhang holds a bachelor degree from the Faculty of Economic Management at Shanghai Maritime University (formerly known as Shanghai Maritime Institute), the PRC.

**Ms. Wen Huiying**, aged 73, is an independent non-executive Director of the Company. Ms. Wen is a senior accountant in the PRC and possesses substantial experience in accounting and financial management. She was the financial controller of a state-owned company listed on the Shenzhen Stock Exchange for more than 10 years. Ms. Wen has been awarded the "National Pioneering Accounting Practitioner" by the Ministry of Finance of the PRC. Her profile has also been registered in the "World's Famous People", the "Dictionary of Chinese Talents" and the "Dictionary of Modern Outstanding Management Experts".

# Directors and Senior Management

## SENIOR MANAGEMENT

**Mr. Zhang Zhenzhong**, aged 65, is the Co-Chief Executive Officer of the Company and is responsible for the day-to-day management of the forestry business in Cambodia. Mr. Zhang has extensive business experience in managing forestry businesses in Cambodia, including the export of timber products from Cambodia, import of equipment and machinery into Cambodia, rubber plantation operations, timber logging, the transportation of timber products, business planning as well as factory management.

**Mr. Sun Zhen**, aged 39, is the Co-Chief Executive Officer of the Company. Mr. Sun has substantial experience in natural resources and asset management. Prior to joining the Group, Mr. Sun was the chief executive officer of Poly Longma Asset Management Co., Ltd.. Mr. Sun obtained a bachelor degree in business administration from Zhejiang University.

**Mr. Lam Kam Ming**, Simon, aged 37, is the Company Secretary, a qualified accountant and authorised representative of the Group, responsible for the overall compliance and financial accounting for the Company. Mr. Lam holds a bachelor degree in business (accounting) from Monash University, Australia and a master degree in business administration from Deakin University, Australia. He is a member of the Chartered Institute of Management Accountants, CPA Australia and a fellow member of the Hong Kong Institute of Certified Public Accountants. Mr. Lam has over ten years of experience in auditing and accounting fields and has previously worked in an international CPA firm. Before joining the Group, he worked for several private companies as a financial controller.

# Report of the Directors

The directors submit herewith their annual report together with the audited financial statements of China Asean Resources Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2011.

## PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding and with the acquisition of subsidiaries in 2007, the Group expanded into the natural resources business in the Kingdom of Cambodia ("Cambodia"). The Group holds 70-year economic land concessions measuring approximately 26,837 hectares with timber reserves of approximately 5.637 million cubic metres.

The principal activities and particulars of its other subsidiaries are set out in note 38 to the financial statements.

## SEGMENT INFORMATION

An analysis of the Group's revenue and results by reportable segments and geographical locations of the Company and its subsidiaries during the financial year are set out in note 6 to the financial statements.

## FIVE YEAR SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 90 of the annual report.

## MAJOR CUSTOMERS AND SUPPLIERS

The information in respect of the Group's sales and purchases attributable to major customers and suppliers, respectively, during the financial year is as follows:

| | Percentage of the Group's total | |
|---|---|---|
| | **Sales** | **Purchases** |
| The largest customer | 49% | |
| Five largest customers in aggregate | 100% | |
| The largest supplier | | 64% |
| Five largest suppliers in aggregate | | 100% |

At no time during the year have the directors, their associates or any shareholders of the Company (which to the knowledge of the directors owns more than 5% of the Company's share capital) had any beneficial interest in these major customers and suppliers.

## FINANCIAL STATEMENTS

The result of the Group for the year ended 31 December 2011 and the state of the Group's and the Company's affairs as at that date are set out in the financial statements on pages 28 to 87.

## RESERVES

As at 31 December 2011, the Company had no reserves available for distribution under section 79B at the Hong Kong Companies Ordinance (2010: HK$ Nil).

## DIVIDENDS

The directors do not recommend the payment of any dividend for the year ended 31 December 2011 (2010: Nil).

# Report of the Directors

## CHARITABLE DONATIONS

During the year, the Group made charitable contributions totalling HK$1,375,000. (2010: HK$302,000)

## PROPERTY, PLANT AND EQUIPMENT

Details of movements in property, plant and equipment during the year are set out in note 15 to the financial statements.

## CONVERTIBLE BONDS

Details of the convertible bonds are set out in note 28 to the financial statements.

## BANK BORROWINGS

The Group did not have any bank borrowings as at 31 December 2011 (2010: Nil).

## APPLICATION OF SHARE ISSUE PROCEEDS

During the year ended 31 December 2011, the Company issued the following shares:

| | Date of issue | No. of shares<br>*'000* | Share issue price |
|---|---|---|---|
| Placing of new shares | January 2011 | 106,680 | HK$0.60 |
| Conversion of shares | January to July 2011 | 1,254,860 | HK$0.22 |
| Issue of consideration shares | October 2011 | 483,871 | HK$0.25 |

The aggregate net share issue proceeds, net of related expenses, of approximately HK$460 million has substantially been used for the acquisition of IM Mining, the acquisition of LRT, general working capital and further investments in natural resources businesses.

## DIRECTORS

The directors of the Company during the year and up to date of this report were:

**Executive directors**

Ms. Yu Xiao Min *(Chairman) (appointed on 7 February 2012)*
Mr. Leung Sze Yuan, Alan *(appointed on 23 May 2008)*
Mr. Zhang Zhenzhong *(Chief Executive Officer) (resigned on 21 March 2011)*
Mr. Zeng Lingchen *(appointed on 6 October 2010)*
Mr. Gong Ting *(appointed on 26 November 2010)*
Mr. Chultemsuren Gankhuyag *(appointed on 5 January 2011)*

**Independent non-executive directors**

Mr. Tam Wai Leung, Joseph *(appointed on 30 September 2004)*
Mr. Chan Kim Chung, Daniel *(resigned on 10 June 2011)*
Mr. Zhang Ying *(appointed on 21 October 2010)*
Ms. Wen Huiying *(appointed on 6 November 2010)*

# Report of the Directors

In accordance with Bye-Laws 99 of the Company's Bye-Laws, Mr. Leung Sze Yuan, Alan and Tam Wai Leung, Joseph shall retire from the Board by rotation at the forthcoming annual general meeting. In accordance with Bye-Laws 102(B) of the Company's Bye-Laws, Ms. Yu Xiao Min shall hold office until the forthcoming annual general meeting. All the retiring Directors being eligible, offer themselves for re-election.

The biographical details of the directors are set out on page 11.

## DIRECTORS' SERVICE CONTRACTS

On 23 May 2011, Mr. Leung Sze Yuan, Alan was appointed as an executive director and entered into a service contract, renewable every three years. He resigned as Chairman of the Group while remaining as an executive director on 7 February 2012. On 6 October 2010, 26 November 2010 and 5 January 2011, Mr. Zeng Lingchen, Mr. Gong Ting and Mr. Chultemsuren Gankhuyag were appointed as executive directors and entered into service contracts renewable every year. On 7 February 2012, Ms. Yu Xiao Min was appointed as an executive director and Chairman of the Group and entered into a service contract which continues until next annual general meeting.

The executive directors are committed by them respective service contracts to devote themselves exclusively and diligently to the business and interests of the Group and to keep the Board promptly and fully informed of their conduct in Group business affairs, among other commitments.

The non-executive directors have entered into service contracts with the Company. The service contracts of Messrs. Tam Wai Leung, Joseph, Zhang Ying and Wen Huiying were renewed for terms of one year commencing on 30 September 2011, 21 October 2011 and 6 November 2011, respectively.

Save as aforesaid, no service contract, which is not determinable by the Company within one year without payment of compensation (other than statutory compensation for any director proposed for re-election at the forthcoming Annual General Meeting).

## DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 2011, the interests and short positions of the directors and the Chief Executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) as recorded in the register required to be kept under Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the minimum standards of dealings by directors as referred to in Rules 5.46 to 5.67 of the GEM Listing Rules were as follows:

| Name | Capacity Interest | Number of Ordinary Shares held | Number of underlying Shares held | Approximate Percentage of shareholding in the Company |
|---|---|---|---|---|
| Mr. Gong Ting | Beneficial Owner | 415,000,000 | — | 15.82% |
| Mr. Leung Sze Yuen, Alan | Beneficial Owner | 10,950,917 | — | 0.42% |
| | | — | 7,314,285 *(note 1)* | 0.28% |
| Mr. Zheng Zhenzhong | Beneficial Owner | 27,328,000 | — | 1.04% |
| | | — | 7,314,285 *(note 2)* | 0.28% |

*Notes:*

1. Mr. Leung Sze Yuan, Alan has been granted 7,314,285 share options which have not yet been exercised.

2. Mr. Zhen Zhenzhong has been granted 7,314,285 share options which have not yet been exercised.

Save as disclosed above, as at 31 December 2011, none of the directors or Chief Executive of the Company had any interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein or were required, pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules relating to the minimum standards of dealings by directors, to be notified to the Company and the Stock Exchange.

## SHARE OPTION SCHEME

Pursuant to an ordinary resolution passed by the shareholders of the Company on 10 June 2011, the Company approved and adopted a new share option scheme (the "Share Option Scheme") and terminated the prior share option scheme which it had adopted on 14 December 2001.

The principal terms of the Share Option Scheme are set out in the Company's circular dated 27 April 2011.

Pursuant to a resolution passed at meetings of all independent non-executive directors on 12 October 2007, 31 March 2008 and 4 June 2010, the Company granted approximately 10,286,000, 9,257,000 and 13,300,000 share option to employees of the Group at exercise prices of HK$1.75, HK$0.815 and HK$0.365 per share, respectively. Subsequently, approximately 1,029,000 share options granted to a former director and approximately 7,557,000 share options granted to senior employees have been cancelled after their resignations. On 12 October 2011, 6,173,000 share options lapsed.

Details of movements in share options during the year are set out in note 33 to the financial statements.

## DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBT SECURITIES

On 10 June 2011, the Company approved and adopted a Share Option Scheme and terminated the prior share option scheme which had been adopted on 14 December 2001, pursuant to which any employees and directors of the Company and its subsidiaries may be granted options to subscribe for shares of the Company.

Save as disclosed above, as at 31 December 2011, no other directors or the Chief Executive or their associates had any interests or rights to subscribe for any securities of the Company or any of its associated corporations as defined in the SFO.

At no time during the year was the Company or any of its subsidiaries a party to any arrangement to enable the directors or the Chief Executive of the Company or any of their respective associates, including spouses or children under eighteen years of age, to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

# Report of the Directors

### INTERESTS DISCLOSEABLE UNDER THE SFO AND SUBSTANTIAL SHAREHOLDERS

At 31 December 2011, so far as is known to any of the directors or the Chief Executive of the Company, the following persons (other than a director or the Chief Executive of the Company) had an interests or short positions in the shares or underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO:

| Name of shareholders | Capacity of interests | Number of ordinary shares held | Number of underlying shares held | Approximate percentage of shareholding in the Company |
|---|---|---|---|---|
| Better Day International Limited ("Better Day") *(note)* | Beneficial owner | 446,370,967 | — | 17.01% |

*Notes:* Better Day is wholly and beneficially owned by Mr. Lo Hung Pan.

Save as disclosed above, as at 31 December 2011, so far as is known to any of the directors or the Chief Executive of the Company, no other person (other than a director or the Chief Executive of the Company) had any interests or short positions in the shares or underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO.

### DIRECTORS' INTEREST IN CONTRACTS

No contract, commitment or agreement of significance in relation to the Company's business, to which the Company or any of its subsidiaries was a party and in which any of the directors of the Company had a material interest, either directly or indirectly, subsisted at end of the year or during the year ended 31 December 2011.

### PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During the year ended 31 December 2011, neither the Company nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities.

### COMPETING INTERESTS

None of the directors, the management shareholders or substantial shareholders of the Company or any of their respective associates (as defined in the GEM Listing Rules) has engaged in any businesses that compete or may compete with the business of the Group or has any other conflicts of interests with the Group.

### PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's Bye-Laws or the laws in Bermuda which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

### PENSION SCHEMES

Details of the Group's pension scheme for the year ended 31 December 2011 are set out in note 32 to the financial statements.

# Report of the Directors

## CODE ON CORPORATE GOVERNANCE PRACTICES

The Board is committed to achieving and maintaining high standards of corporate governance in managing the business and affairs of the Group as guided by the principles and best practices as set out in the Hong Kong Code on Corporate Governance (the "Code") in Appendix 15 of the GEM Listing Rules of the Stock Exchange of Hong Kong Limited and the development of recognized best governance practices. These practices are instilled throughout the Group's operations. Further details are set out in the Corporate Governance Report.

In the opinion of the Board, the Company has complied with the Code and adopted the required standards on dealings as set out in Rules 5.48 to 5.67 of the GEM Listing Rules as its code of conduct regarding directors' transactions in securities of the Company throughout the year ended 31 December 2011. Having made specific enquiries of all directors of the Company, the Company's directors confirmed that they have complied with such code of conduct and the required standards of dealings throughout the year ended 31 December 2011.

## SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available and within the knowledge of the directors, it is confirmed that there is sufficient public float of more than 25% of the Company's issued shares at the latest practicable date prior to the issue of this annual report.

## INDEPENDENCE CONFIRMATION

The Company has received, from each independent non-executive director, an annual confirmation of independence pursuant to the GEM Listing Rules. The Board considers all the independent non-executive directors are independent.

## AUDIT COMMITTEE

The Audit Committee was established with written terms of reference in compliance with Rules 5.28 to 5.33 of the GEM Listing Rules. The Audit Committee's primary duties include reviewing Company annual reports and quarterly financial reports and providing advice and comments thereon to the Board. The Audit Committee is also responsible for reviewing and supervising the Company's financial reporting and internal control procedures.

The Audit Committee was comprised of three independent non-executive directors, namely, Messrs. Tam Wai Leung, Joseph, Chan Kim Chung, Daniel (resigned on 10 June 2011), Zhang Ying and Wen Hui Ying, and has held 4 meetings during the year under review.

The Audit Committee has reviewed the Company's audited annual report for the year ended 31 December 2011 and was of the opinion that the preparation complied with the applicable accounting standards and requirements and that adequate disclosures have been made.

## AUDITORS

KLC Kennic Lui & Co. Ltd. were first appointed as auditors of the Company in 2005.

The financial statements for the year ended 31 December 2011 were audited by KLC Kennic Lui & Co. Ltd. KLC Kennic Lui & Co. Ltd. will retire at the conclusion of the forthcoming Annual General Meeting and, being eligible, offer themselves for re-appointment. A resolution for the re-appointment of KLC Kennic Lui & Co. Ltd. as auditor of the Company is to be proposed at the forthcoming Annual General Meeting.

By order of the Board
**Leung Sze Yuan, Alan**
*Executive Director*

Hong Kong, 27 March 2012

# Corporate Governance Report

The board of directors of the Company (the "Board") and the management of the Company are committed to the maintenance of good corporate governance practices and procedures.

The Board believes that good corporate governance is an essential element in enhancing the confidence of shareholders, investors, employees, business partners and the community as a whole and also the performance of the Group. The Board reviews the corporate governance structure and practices from time to time and makes necessary arrangements to ensure business activities and decision-making processes are made in a proper and prudent manner.

In the opinion of the directors, the Company has complied with the provisions as set out in the Code on Corporate Governance Practice (the "Code") in Appendix 15 of the GEM Listing Rules of the Stock Exchange of Hong Kong Limited for the financial year ended 31 December 2011.

## DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the required standard of dealings regarding securities transactions by directors set out in Rules 5.48 to 5.67 of the GEM Listing Rules as its code of conduct for dealing in securities of the Company by the directors (the "Code of Conduct"). Having made specific enquiries, all Directors confirmed that they had complied with the required standard of dealings set out in the Code of Conduct throughout the financial year ended 31 December 2011.

## THE BOARD OF DIRECTORS

### Board composition

The Board currently comprises eight directors, of whom five are executive directors, and three are independent non-executive directors.

The Board members for the year ended 31 December 2011 and up to the date of this report were:

***Executive directors***

Ms. Yu Xiao Min *(Chairman) (appointed on 7 February 2012)*
Mr. Leung Sze Yuan, Alan *(appointed on 23 May 2008)*
Mr. Zhang Zhenzhong *(Chief Executive Officer) (resigned on 21 March 2011)*
Mr. Zeng Lingchen *(appointed on 6 October 2010)*
Mr. Gong Ting *(appointed on 26 November 2010)*
Mr. Chultemsuren Gankhuyag *(appointed on 5 January 2011)*

***Independent non-executive directors***

Mr. Tam Wai Leung, Joseph *(appointed on 30 September 2004)*
Mr. Chan Kim Chung, Daniel *(resigned on 10 June 2011)*
Mr. Zhang Ying *(appointed on 21 October 2010)*
Ms. Wen Huiying *(appointed on 6 November 2010)*

The directors' biographical information is set out on page 11 of this Annual Report. All executive directors have given sufficient time and attention to the affairs of the Group. Each executive director has sufficient experience to hold his/her position and to carry out his/her duties effectively and efficiently.

# Corporate Governance Report

**Board meetings**

The Board meets at least four times each year at approximately quarterly intervals. The directors attended in person or participated through electronic means of communication. At lease 14 days notice of meetings were given to all directors with formal agendas which schedule matters to be addressed by the Board. All directors have access to board papers and related materials, and are provided with adequate information which enables the Board to make informed decisions on the matters to be discussed and considered at board meetings. The Company Secretary assists the Chairman in preparing the agenda for the meeting, and ensures that all applicable rules and regulations regarding the meetings are observed.

The Board is responsible for planning and overseeing the overall development and management of the Group with the objective of enhancing shareholders' value. The Board, led by the Chairman, is responsible for the approval of annual budgets and business plans, evaluation of the Company's performance, formulating the overall strategies of the Group, and deciding on other significant matters. Execution of daily operational matters is delegated to management.

During the year, four board meetings were held for the purpose of quarterly, half year and annual result reporting. Details of the attendance of the directors are as follows:

| | **Members' Attendance** |
|---|---|
| **Executive directors** | |
| Ms. Yu Xiao Min *(appointed on 7 February 2012)* | 0/0 |
| Mr. Leung Sze Yuan, Alan | 4/4 |
| Mr. Zhang Zhenzhong *(resigned on 21 March 2011)* | 0/0 |
| Mr. Zeng Lingchen | 0/4 |
| Mr. Gong Ting | 4/4 |
| Mr. Chultemsuren Gankhuyag | 0/4 |
| **Independent non-executive directors** | |
| Mr. Tam Wai Leung, Joseph | 3/4 |
| Mr. Chan Kim Chung, Daniel *(resigned on 10 June 2011)* | 0/1 |
| Mr. Zhang Ying | 3/4 |
| Ms. Wen Huiying | 0/3 |

**Chairman and chief executive officers**

The roles of the Chairman, Ms. Yu Xiao Min and the Co-Chief Executive Officers ("CEO"), Mr. Zhang Zhenzhong and Mr. Sun Zhen, are segregated. This segregation ensures a clear distinction between the Chairman's and CEO's responsibilities which allows a balance of power between the Board and the management of the Group, and ensures their independence and accountability. There are no financial, business, family or other relationships between the Chairman and the CEO.

Ms. Yu, as the Chairman of the Company, has overall responsibility for providing leadership, vision and direction in the development of the business of the Company. She ensures that:

— the Board functions effectively, and that all key and appropriate issues are properly briefed and discussed by the Board in a timely manner;

— the responsibilities for drawing up the agenda for each Board meeting and, where appropriate, taking into account any matters proposed by each director for inclusion in the agenda have been duly delegated to the Company Secretary; and

— good corporate governance practices and procedures are established and encourages all directors to make full and active participation to the affairs of the Group.

Mr. Zhang and Mr. Sun, as the CEOs, are responsible for the day-to-day management of the business of the Group, attend to formulation and implementation of policies, and assume full accountability to the Board for all operations of the Group. Working with the executive management team, they ensure the smooth operations and development of the Group. They maintain a continuing dialogue with the Chairman and all directors and keep them fully informed of all major business developments and issues.

**Non-executive directors**

The presence of three independent non-executive directors, is considered by the Board to be a reasonable balance between executive and non-executive directors. The Board is of the opinion that such balance has and shall continue to provide adequate checks and balances for safeguarding the interests of shareholders and the Group. The non-executive directors provide to the Group a wide range of expertise and experience and play an important role in the work of the Board, as well as ensuring that the interests of all shareholders are taken into account. They contribute significantly to the development of the Group's strategies and policies through their informed comments and criticism. They are also responsible for participating in Board meetings, dealing with potential conflicts of interest, serving on Audit, Remuneration and Nomination Committees, and scrutinizing the Group's performance and reporting. Through their active participation, they give to the Board the benefit of their skills, expertise and background experience, and ensure the management process is critically reviewed and controlled.

In full compliance with rules 5.05(1) and (2) of the GEM Listing Rules of the three independent non-executive directors, at least one has appropriate professional qualifications or accounting or related financial management expertise. The Group has received from each independent non-executive director an annual confirmation of his independence, and the Group considers such directors to be independent in accordance with each and every guideline set out in rule 5.09 of the GEM Listing Rules. No independent non-executive director has served the Group for more than nine years.

All independent non-executive directors are identified as such in all corporate communications containing the names of the directors.

**Term of appointment and re-election**

All independent non-executive directors were appointed for a term of one year. All director appointments are renewable with the Board's approval. Pursuant to the Bye-Laws of the Company, one third of the directors (except the Chairman or Managing Director of the Company) retire from office by rotation and are subject to re-election at annual general meetings. The directors to retire and year shall be those who have been longest in office since their last election but as between persons who became directors on the same day shall (unless they otherwise agree between themselves) be determined by lot. Further, all directors appointed to fill casual vacancies shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election at the meeting. Messrs. Leung Sze Yuan, Alan and Tam Wai Leung, Joseph will retire from the Board at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

## REMUNERATION COMMITTEE

The Remuneration Committee was established in 2005 with specific written terms of reference which deal with its authority and duties. The terms of reference of the Remuneration Committee is available on request. The Remuneration Committee comprises three members. The Chairman of the committee is Mr. Zhang Ying, an independent non-executive director of the Company, and other members include Mr. Tam Wai Leung, Joseph and Mr. Leung Sze Yuan, Alan, the majority being independent non-executive directors of the Company.

The Remuneration Committee is responsible for formulating and recommending to the Board the remuneration policies, determining the remuneration of executive directors and members of senior management of the Group, as well as reviewing and making recommendations on the Company's share option scheme, bonus structure, provident fund and other compensation-related issues. The Committee consults with the Chairman and the Chief Executive Officer on its proposals and recommendations, and also has access to professional advice, if deemed necessary. The Committee is also provided with other resources enabling it to discharge its duties. The terms of reference of the Remuneration Committee is written in compliance with the GEM Listing Rules.

The Remuneration Committee held a meeting on 27 March 2012 to review the remuneration package of executive directors, non-executive directors and senior management. Mr. Zhang Ying, Mr. Tam Wai Leung, Joseph and Mr. Leung Sze Yuan, Alan attended this meeting. The Remuneration Committee reviewed the existing remuneration packages of executive directors, independent non-executive directors and senior management taking into consideration the natural resources business developments in Cambodia and PRC. Mr. Leung Sze Yuan, Alan abstained from voting on the review of his own remuneration package.

| | Members' Attendance |
|---|---|
| **Executive Director** | |
| Mr. Leung Sze Yuan, Alan | 1/1 |
| **Independent Non-Executive Directors** | |
| Mr. Tam Wai Leung, Joseph | 1/1 |
| Mr. Zhang Ying | 1/1 |

## NOMINATION COMMITTEE

The Nomination Committee was established in 2005 with specific terms of reference. The Chairman of the committee is Mr. Tam Wai Leung, Joseph, an independent non-executive director of the Company, and other members include Mr. Zhang Ying and Mr. Leung Sze Yuan, Alan, the majority being independent non-executive directors of the Company.

The Nomination Committee is responsible for formulating nomination policies, and making recommendations to the Board on nominations and appointments of directors and board succession planning. The Committee also develops selection procedures on candidates for nomination, reviews the size, structure and composition of the Board, as well as assessing the independence of independent non-executive directors. The Committee is provided with sufficient resources enabling it to discharge its duties.

The terms of reference of the Nomination Committee are written in compliance with the GEM Listing Rules.

The Nomination Committee held a meeting on 27 March 2012 to review the structure, size and composition of the Company's Board of Directors. Mr. Tam Wai Leung, Joseph, Mr. Zhang Ying and Mr. Leung Sze Yuan, Alan attended this meeting. Given the natural resources business developments in Cambodia and PRC, the Nomination Committee recommended new members with expertise in forestry, wood products and mineral resources business and financial management experience to be appointed in the near term. The Chairman will propose the appointment of such candidates to the Board for consideration and the Board will review the qualifications, experience and background of the relevant candidates to determine the suitability for the Group.

| | Members' Attendance |
|---|---|
| **Executive Director** | |
| Mr. Leung Sze Yuan, Alan | 1/1 |
| **Independent Non-Executive Directors** | |
| Mr. Tam Wai Leung, Joseph | 1/1 |
| Mr. Zhang Ying | 1/1 |

# Corporate Governance Report

## AUDIT COMMITTEE

The Board is responsible for presenting a balanced, clear and comprehensible assessment of the Group's performance and prospects. The Board is also responsible for preparing the financial statements of the Company, which give a true and fair view of the financial position of the Group on a going concern basis, other price-sensitive announcements and other financial disclosures. Management provides all relevant information and reports to the Board enabling the Board to make the above assessment and to prepare the financial statements and other disclosures.

In full compliance with rule 5.28 of the GEM Listing Rules, the Audit Committee, established in 2002, is currently chaired by Mr. Tam Wai Leung, Joseph, an independent non-executive director, and the other members are Ms. Wen Huiying and Mr. Zhang Ying, all being independent non-executive directors of the Company.

There were no disagreements between the Board and the Audit Committee on the selection, appointment, resignation or dismissal of the external auditors during the year under review.

The Audit Committee's primary duties include ensuring the Group's financial statements, annual and interim reports, and the independent auditor's report present a true and balanced assessment of the Group's financial position; reviewing the Group's financial controls, internal controls and risk management systems; and reviewing the Group's financial and accounting policies and practices. Other duties of the Audit Committee are set out in its terms of reference, which is written in compliance with the GEM Listing Rules.

The Audit Committee is provided with sufficient resources enabling it to discharge its duties. The Audit Committee met four times to review the quarterly and annual results of the Group during the year ended 31 December 2011, which were attended by a majority of members. Full minutes of the Audit Committee are kept by the Company Secretary.

| | **Members' Attendance** |
|---|---|
| **Independent non-executive directors** | |
| Mr. Tam Wai Leung, Joseph | 3/4 |
| Mr. Chan Kim Chung, Daniel *(resigned on 10 June 2011)* | 1/1 |
| Mr. Zhang Ying | 3/4 |
| Ms. Wen Huiying | 0/3 |

## AUDITORS' REMUNERATION

For the year ended 31 December 2011, the fees payable to the group and component auditors in respect of audit services were approximately HK$1,011,000.

## INTERNAL CONTROL

The Board is responsible for maintaining sound and effective internal control systems for the Group to safeguard the Group's assets and shareholders' interests, as well as for reviewing such systems' effectiveness.

## SPECIAL REVIEW COMMITTEE

A public announcement dated 3 June 2011 was made by the Company in relation to the proceedings commenced by the SFC to seek disqualification and compensation orders against Mr. Li Wo Hing and Mr. James Li, former executive directors of the Company.

# Corporate Governance Report

The Board resolved to establish a special review committee (the "Special Review Committee") for the purpose of reviewing the transactions referred to in the proceedings to consider, inter alia, whether any legal actions should be initiated against the former directors involved in the proceedings. The Special Review Committee comprised Mr. Leung Sze Yuan, Alan, an executive Director, Mr. Zhang Ying, an independent non-executive director and Mr. Lam Kam Ming, the joint company secretary of the Company.

In light of the fact that the Special Review Committee has been established to review the transactions referred to in the proceedings, the directors consider it to be premature at this stage to form a view as to whether any legal actions should be initiated against the former directors involved in the proceedings. The Board will seriously consider the matter further upon receipt of the findings of the Special Review Committee and the results of the proceedings.

## DELEGATION BY THE BOARD

The Board is responsible for decisions in relation to the overall strategic development of the Group's business. All directors have formal letters of appointment setting out key terms and conditions relative to their appointment. Due to the diversity of the Group's business, responsibility in relation to the daily operations and execution of the strategic business plans are delegated to management.

All committees, namely the Audit Committee, the Remuneration Committee and the Nomination Committee, have their terms of reference which clearly define the powers and responsibilities. All committees are required to report to the Board in relation to their decisions, findings and/or recommendations, and in certain specific situations, to seek the Board's approval before taking any actions.

The Board reviews, on a yearly basis, all delegations by the Board to different committees to ensure that such delegations are appropriate and continue to be beneficial to the Group as a whole.

## INVESTOR RELATIONS AND SHAREHOLDERS' RIGHTS

The Company uses a number of channels to communicate to shareholders and investors on the performance of the Company. These include (i) the publication of quarterly and annual reports; (ii) the annual general meeting or extraordinary general meeting which provide a forum for shareholders of the Company to raise comments and exchange views with the Board; (iii) key information on the Group is available on the website of the Company; and (iv) the Company's share registrars in Hong Kong serve the shareholders on all share registration matters.

The Company aims to provide its shareholders and investors with high standards of disclosure and financial transparency. The Board is committed to provide clear, detailed, timely information on a regular basis to shareholders through the publication of quarterly and annual reports, circulars, notices, and other announcements.

The Company strives to take into consideration its shareholders' views and input, and to address shareholders' concerns. Shareholders are encouraged to attend the annual general meeting for which at least 21 days' notice is given. The Chairman as well as chairmen of the Audit Committee, Nomination Committee and Remuneration Committee, or in their absence, other Directors are available to answer shareholder questions on the Group's business at the meetings. All shareholders have statutory rights to call for extraordinary general meetings and to put forward an agenda for consideration.

# Independent Auditor's Report

呂禮恒會計師事務所有限公司
KLC Kennic Lui & Co.Ltd.
Certified Public Accountants (Practising)

To the shareholders of
**China Asean Resources Limited**
*(Incorporated in Bermuda with limited liability)*

We were engaged to audit the consolidated financial statements of China Asean Resources Limited (the "Company") and its subsidiaries (together the "Group") set out on pages 28 to 87, which comprise the consolidated and company statements of financial position as at 31 December 2011, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

## DIRECTORS' REPSONSIBILTIES FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

## AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. This report is made solely to you, as a body, in accordance with Section 90 of the Bermuda Companies Act 1981, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement. However, because of certain matters, including those described in the basis for disclaimer of opinion paragraph below, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

## BASIS FOR DISCLAIMER OF OPINION

The Group has recorded a loss attributable to equity holders of the Company of HK$61,312,000 (2010: HK$33,959,000) for the year ended 31 December 2011 and has net current liabilities of HK$15,488,000 (2010: net current assets of HK$12,724,000) as at 31 December 2011. Also, as at 31 December 2011, the Group had cash at bank and on hand aggregating only HK$2,503,000. These conditions along with the matters referred to below indicate the existence of material uncertainties which may cast significant doubt about the Group's ability to continue as a going concern.

(i) In the Group's Cambodian forestry operations, the plantation cycle takes approximately 5 to 7 years from field planting of rubber tree seedlings to harvesting of latex which precludes the Group realising earnings from rubber products in the medium term. Also, the progress on land clearing and re-planting has been delayed due to flooding and lacking of sufficient funds for large scale wood logging and plantation development. In fact, sales of timber for 2011 only amounted to approximately HK$59,000. Therefore, there is uncertainty as to the cash return cycle from the wood products manufacturing and plantation businesses in the short to medium term at least.

While construction of the export wood flooring factory in Cambodia with a designed capacity of 10,000 $m^3$ per annum has been completed during the year, the major cash inflow to fund the forestry operations to date has largely depended on funding received from a director of the Cambodian subsidiaries. We have no assurances as to the continued financial support being forthcoming from the director, particularly given the significant future financial requirements for such a large scale project.

(ii) The Group has obtained control over a subsidiary, namely 內蒙古華越礦業有限公司 ("IM Mining") through a contractual arrangement during the year under review. However, the Group is still in the process of obtaining the legal title to ownership of IM Mining. In addition, other than a broker fee of approximately HK$8 million generated from a service contract, IM Mining achieved sales of only HK$145,000 from the sale of coal since the date of completion of acquisition and up to 31 December 2011. As at the date of this report, the broker fee receivable by IM Mining had been settled in cash and by a banker's acceptance bill (receivable in June 2012) issued by a bank in the PRC. As such, there are uncertainties as to the future cash inflows which can be generated from the coal trading business.

(iii) During the year, the Group further diversified its business into the plastic and wood products manufacturing through acquisition of a 30% shareholding interest in Live Rise Technology Limited and its subsidiaries ("Live Rise Group") and reports to be seeking to acquire an additional 20% interest in 2012. Although the production lines have been set up and the ownership of the equipment and machinery and certain raw materials have been transferred to Live Rise Group as at 31 December 2011, the registered capital of HK$60 million in the production arm of the Live Rise Group, i.e. the wholly foreign-owned PRC entity, has not been paid up. As such, we have concerns as to whether Live Rise Group will ultimately receive the necessary cash to fund its activities in the short to medium term unless the registered capital of the PRC entity is fully paid up in the second quarter of 2012 and commercial production commences in April 2012 as represented by management of Live Rise Group. According to the relevant agreements and board resolutions, the contribution of the capital will be the sole responsibility of the vendor of Live Rise Group and the Group does not have any further investment commitment to provide funding for this PRC entity.

As represented by the management of Live Rise Group, the major shareholder of Live Rise Group is prepared to inject further funding to financially support the operations of Live Rise Group which has been on trial production and expected to commence commercial production in April 2012.

(iv) Included in the Group's trade and other receivables is an amount due from Eastwood Link Limited of approximately HK$12.3 million representing the consideration for the sublease of 10% of the Group's first forest acquisition in Cambodia. This amount was in default for payment on 31 December 2011 and, while 50% of this receivable has been provided as at 31 December 2011, the full amount is in question of being collectible and, if not so, whether the land title can be recovered to offset such loss.

(v) As at 31 December 2011, the Group had total other payables of HK$43.7 million and a capital commitment due within one year from the year end date amounting to approximately HK$14 million in respect of the Cambodian forest operations.

In addition to the above existing indebtedness, the Group has ongoing operating expenses, exclusive of depreciation and amortisation, which for the year ended 31 December 2011 amounted to HK$34.5 million. To cover past indebtedness and continuing expenses, the Group has material funding requirements which are not yet in place at the date of this report.

(vi) As explained in Note 2(b)(ii) to the consolidated financial statements, the directors have adopted or plan to adopt certain measures in order to improve the Group's financial position and future cash flows to maintain the Group as a going concern. The directors have prepared a cash flow forecast for the 2012 financial year based on certain underlying assumptions including obtaining HK$30 million funding under a loan facility to be provided by a company which, if not forthcoming, has been assured of being funded by a director/shareholder of the Group. We have not been able to determine that such funding will be achieved and/or if it is adequate to meet the Group's ongoing operational needs. Further, we have not been able to be assured that the Group can achieve the revenue and other key assumptions used in the cash flow projections, particularly in view of its past record to do so.

These financial statements have been prepared on a going concern basis, the validity of which depends upon the successful outcome of the above measures to be undertaken in order to satisfy the Group's working capital needs and improve its cash flows. However, in view of the matters outlined above and the inability to obtain sufficient assurance that loan facility and other funding measures can be realized and/or will be adequate, we have been unable to determine whether it is appropriate to use the going concern basis in preparing the consolidated financial statements. There were no other satisfactory audit procedures that we could adopt in this regard.

Should use of the going concern basis in preparing the financial statements be determined to be inappropriate, adjustments might have to be made to reduce the value of assets to their recoverable amounts, to provide for any further liabilities which might arise and to reclassify non-current assets and liabilities as current assets and liabilities, respectively.

## DISCLAIMER OF OPINION

Because of the significance of the matters described in the "Basis for Disclaimer of Opinion" paragraphs, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, we do not express an opinion on the consolidated financial statements. In all other respects, in our opinion the consolidated financial statements have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

**KLC Kennic Lui & Co. Ltd.**
*Certified Public Accountants (Practising)*
**Choy Po Fong**
Practising Certificate No. P04688

Hong Kong, 27 March 2012

# Consolidated Statement of Comprehensive Income

*For the year ended 31 December 2011*

| | Notes | 2011 HK$'000 | 2010 HK$'000 |
|---|---|---|---|
| **CONTINUING OPERATIONS** | | | |
| **Turnover** | 5 | **204** | 2,960 |
| Cost of sales | | **(122)** | (2,811) |
| **Gross profit** | | **82** | 149 |
| Other revenue | 7 | **8,190** | 4,591 |
| Other net income | 7 | **14** | 44 |
| Selling and distribution costs | | **(551)** | (115) |
| Administrative expenses | | **(51,616)** | (44,663) |
| Impairment loss recognised in respect of trade and other receivables | 8 | **(7,000)** | (916) |
| Finance costs | 8 | **(8,743)** | (1,457) |
| **Loss before taxation** | 8 | **(59,624)** | (42,367) |
| Taxation | 9 | **(1,540)** | — |
| **Loss for the year from continuing operations** | | **(61,164)** | (42,367) |
| **DISCONTINUED OPERATIONS** | | | |
| Profit/(loss) for the year from discontinued operations | 10(b) | **(151)** | 8,460 |
| **LOSS FOR THE YEAR** | | **(61,315)** | (33,907) |
| **Other comprehensive income for the year** | | | |
| Exchange differences on translation of financial statements of overseas subsidiaries | | **75** | (52) |
| **Other comprehensive income for the year, net of tax** | | **75** | (52) |
| **TOTAL COMPREHENSIVE INCOME FOR THE YEAR** | | **(61,240)** | (33,959) |
| **Loss attributable to:** | | | |
| Equity holders of the Company | | **(61,312)** | (33,907) |
| Non-controlling interests | | **(3)** | — |
| | | **(61,315)** | (33,907) |
| **Total comprehensive income attributable to:** | | | |
| Equity holders of the Company | | **(61,237)** | (33,959) |
| Non-controlling interests | | **(3)** | — |
| | | **(61,240)** | (33,959) |

| | Notes | 2011 HK Cents | 2010 HK Cents |
|---|---|---|---|
| **Basic earnings/(loss) per share** | 14 | | |
| From continuing operations | | **(3.22)** | (8.30) |
| From discontinued operations | | **—** | 1.66 |
| | | **(3.22)** | (6.64) |
| **Diluted earnings/(loss) per share** | 14 | | |
| From continuing operations | | **N/A** | N/A |
| From discontinued operations | | **N/A** | N/A |
| | | **N/A** | N/A |

The notes on pages 34 to 87 form part of these financial statements.

# Consolidated Statement of Financial Position

*At 31 December 2011*

| | Notes | 2011 HK$'000 | 2010 HK$'000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Property, plant and equipment | 15 | **42,793** | 29,514 |
| Biological assets | 16 | **21,295** | — |
| Intangible assets | 18 | **853,091** | 865,825 |
| Goodwill | 19 | **18,579** | — |
| Interest in associates | 21 | **120,968** | — |
| | | **1,056,726** | 895,339 |
| **Current assets** | | | |
| Inventories | 23 | **4,733** | 1,637 |
| Trade and other receivables | 24 | **23,378** | 17,205 |
| Cash at bank and on hand | | **2,503** | 15,441 |
| | | **30,614** | 34,283 |
| Assets of disposal group classified as held for sale | 10(a) | **38** | — |
| | | **30,652** | 34,283 |
| **Current liabilities** | | | |
| Other payables | 26 | **43,703** | 21,246 |
| Taxation | | **1,899** | 313 |
| | | **45,602** | 21,559 |
| Liabilities of disposal group classified as held for sale | 10(a) | **538** | — |
| | | **46,140** | 21,559 |
| **Net current assets/(liabilities)** | | **(15,488)** | 12,724 |
| **Total assets less current liabilities** | | **1,041,238** | 908,063 |
| **Non-current liabilities** | | | |
| Convertible bonds | 28 | **—** | 174,808 |
| **NET ASSETS** | | **1,041,238** | 733,255 |
| **CAPITAL AND RESERVES** | | | |
| Share capital | 29 | **131,198** | 38,927 |
| Reserves | | **910,043** | 694,328 |
| Total equity attributable to: | | | |
| Equity holders of the Company | | **1,041,241** | 733,255 |
| Non-controlling interests | | **(3)** | — |
| **TOTAL EQUITY** | | **1,041,238** | 733,255 |

Approved and authorised for issue by the Board of Directors on 27 March 2012.

**Leung Sze Yuan, Alan**
*Director*

**Gong Ting**
*Director*

The notes on pages 34 to 87 form part of these financial statements.

# Statement of Financial Position

*At 31 December 2011*

| | Note | 2011 HK$'000 | 2010 HK$'000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Property, plant and equipment | 15 | **59** | 37 |
| Investments in subsidiaries | 17 | **8,096** | 937,987 |
| Interest in associates | 21 | **120,968** | — |
| | | **129,123** | 938,024 |
| **Current assets** | | | |
| Trade and other receivables | 24 | **183** | 187 |
| Amounts due from subsidiaries | 25 | **987,243** | 15,005 |
| Cash at bank and on hand | | **12** | 336 |
| | | **987,438** | 15,528 |
| **Current liabilities** | | | |
| Other payables | 26 | **4,176** | 15,953 |
| Amounts due to subsidiaries | 27 | **205,946** | 205,964 |
| | | **210,122** | 221,917 |
| **Net current assets/(liabilities)** | | **777,316** | (206,389) |
| **Total assets less current liabilities** | | **906,439** | 731,635 |
| **Non-current liabilities** | | | |
| Convertible bonds | 28 | **—** | 174,808 |
| **NET ASSETS** | | **906,439** | 556,827 |
| **CAPITAL AND RESERVES** | | | |
| Share capital | 29 | **131,198** | 38,927 |
| Reserves | 30 | **775,241** | 517,900 |
| **TOTAL EQUITY** | | **906,439** | 556,827 |

Approved and authorised for issue by the Board of Directors on 27 March 2012.

| | |
|---|---|
| **Leung Sze Yuan, Alan** | **Gong Ting** |
| *Director* | *Director* |

The notes on pages 34 to 87 form part of these financial statements.

# Consolidated Statement of Changes in Equity

*For the year ended 31 December 2011*

| | Attributable to equity share holders of the Company | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Share capital *HK$'000* | Share premium *HK$'000* | Contributed surplus *HK$'000* | Capital reserve *HK$'000* | Share options reserve *HK$'000* | Exchange reserve *HK$'000* | Retained profits/ (Accumulated losses) *HK$'000* | Total *HK$'000* | Non-controlling interests *HK$'000* | Total *HK$'000* |
| **Balance at 1 January 2010** | 19,050 | 497,783 | 5,265 | — | 9,197 | 12,069 | 1,994 | 545,358 | — | 545,358 |
| **Transactions with owners** | | | | | | | | | | |
| Recognition of equity-settled share based payments | — | — | — | — | 1,116 | — | — | 1,116 | — | 1,116 |
| Issue of share | 18,513 | 103,482 | — | — | — | — | — | 121,995 | — | 121,995 |
| Lapse of share options | — | — | — | — | (2,070) | — | 2,070 | — | — | — |
| Issue of convertible bonds | — | — | — | 106,676 | — | — | — | 106,676 | — | 106,676 |
| Conversion of convertible bonds | 1,364 | 2,948 | — | (2,269) | — | — | — | 2,043 | — | 2,043 |
| **Total transactions with owners** | 19,877 | 106,430 | — | 104,407 | (954) | — | 2,070 | 231,830 | — | 231,830 |
| **Comprehensive income** | | | | | | | | | | |
| Loss for the year | — | — | — | — | — | — | (33,907) | (33,907) | — | (33,907) |
| Other comprehensive income | — | — | — | — | — | (52) | — | (52) | — | (52) |
| **Total comprehensive income** | — | — | — | — | — | (52) | (33,907) | (33,959) | — | (33,959) |
| **Exchange reserve realised upon disposal of subsidiaries** | — | — | — | — | — | (9,974) | — | (9,974) | — | (9,974) |
| **Balance at 31 December 2010** | 38,927 | 604,213 | 5,265 | 104,407 | 8,243 | 2,043 | (29,843) | 733,255 | — | 733,255 |

| | **Attributable to equity share holders of the Company** | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | **Share capital** ***HK$'000*** | **Share premium** ***HK$'000*** | **Contributed surplus** ***HK$'000*** | **Capital reserve** ***HK$'000*** | **Share options reserve** ***HK$'000*** | **Exchange reserve** ***HK$'000*** | **Retained profits/ (Accumulated losses)** ***HK$'000*** | **Total** ***HK$'000*** | **Non-controlling interests** ***HK$'000*** | **Total** ***HK$'000*** |
| **Balance at 1 January 2011** | **38,927** | **604,213** | **5,265** | **104,407** | **8,243** | **2,043** | **(29,843)** | **733,255** | **—** | **733,255** |
| **Transactions with owners** | | | | | | | | | | |
| Issue of shares | **24,194** | **96,774** | **—** | **—** | **—** | **—** | **—** | **120,968** | **—** | **120,968** |
| Recognition of equity-settled share based payments | **—** | **—** | **—** | **—** | **696** | **—** | **—** | **696** | **—** | **696** |
| Lapse of share options | **—** | **—** | **—** | **—** | **(5,457)** | **—** | **5,457** | **—** | **—** | **—** |
| Share placement | **5,334** | **58,674** | **—** | **—** | **—** | **—** | **—** | **64,008** | **—** | **64,008** |
| Conversion of convertible bonds | **62,743** | **213,326** | **—** | **(104,407)** | **—** | **—** | **11,889** | **183,551** | **—** | **183,551** |
| **Total transactions with owners** | **92,271** | **368,774** | **—** | **(104,407)** | **(4,761)** | **—** | **17,346** | **369,223** | **—** | **369,223** |
| **Comprehensive income** | | | | | | | | | | |
| Loss for the year | **—** | **—** | **—** | **—** | **—** | **—** | **(61,312)** | **(61,312)** | **(3)** | **(61,315)** |
| Other comprehensive income | **—** | **—** | **—** | **—** | **—** | **75** | **—** | **75** | **—** | **75** |
| **Total comprehensive income** | **—** | **—** | **—** | **—** | **—** | **75** | **(61,312)** | **(61,237)** | **(3)** | **(61,240)** |
| **Balance at 31 December 2011** | **131,198** | **972,987** | **5,265** | **—** | **3,482** | **2,118** | **(73,809)** | **1,041,241** | **(3)** | **1,041,238** |

The notes on pages 34 to 87 form part of these financial statements.

# Consolidated Statement of Cash Flows

*For the year ended 31 December 2011*

| | Note | 2011 HK$'000 | 2010 HK$'000 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Loss before taxation including discontinued operations | | **(59,775)** | (33,907) |
| Adjustments for: | | | |
| Depreciation | | **4,985** | 1,628 |
| Net gain on disposal of property, plant and equipment | | **(14)** | (44) |
| Amortisation of intangible assets: | | | |
| Forest exploitation rights | | **12,734** | 7,696 |
| Share based payments | *33* | **696** | 1,116 |
| Impairment loss recognised in respect of trade and other receivables | | **7,000** | 916 |
| Inventory written off | | **869** | — |
| Gain on disposal of subsidiaries | *22(b)* | **—** | (12,260) |
| Interest received | | **(9)** | (3) |
| Property, plant and equipment written off | | **79** | — |
| Finance costs | | **8,743** | 1,457 |
| Operating loss before changes in working capital | | **(24,692)** | (33,401) |
| (Increase)/decrease in inventories | | **(3,965)** | 159 |
| (Increase)/decrease in trade and other receivables | | **(11,891)** | 10,549 |
| Increase in other payables | | **18,397** | 15,040 |
| **Net cash used in operating activities** | | **(22,151)** | (7,653) |
| **Cash flows from investing activities** | | | |
| Capital expenditure: | | | |
| Purchase of property, plant and equipment | | **(13,369)** | (5,199) |
| Purchase of biological assets | | **(16,558)** | — |
| Proceeds from sale of property, plant and equipment | | **140** | 125 |
| Net cash and cash equivalents from disposal of subsidiaries | *22(c)* | **—** | 7,234 |
| Interest received | | **9** | 3 |
| Acquisition of a subsidiary | *20(2)(a)* | **(24,980)** | — |
| **Net cash from/(used in) investing activities** | | **(54,758)** | 2,163 |

The notes on pages 34 to 87 form part of these financial statements.

# Consolidated Statement of Cash Flows

*For the year ended 31 December 2011*

| | Note | **2011** **HK$'000** | 2010 HK$'000 |
|---|---|---|---|
| **Cash flows from financing activities** | | | |
| Redemption of bonds | | **—** | (3,700) |
| Proceed from issue of shares | *29, 30* | **—** | 15,240 |
| New shares placement | | **64,008** | — |
| **Net cash from financing activities** | | **64,008** | 11,540 |
| **Net increase/(decrease) in cash and cash equivalents** | | **(12,901)** | 6,050 |
| **Cash and cash equivalents at beginning of the year** | | **15,441** | 9,436 |
| **Effect of foreign exchange rate changes** | | **(37)** | (45) |
| **Cash and cash equivalents at end of the year** | | **2,503** | 15,441 |
| Analysis of cash and cash equivalents: | | | |
| Cash at bank and on hand | | **2,502** | 15,441 |
| Cash at bank and on hand classified as assets held for sale | *10(a)* | **1** | — |
| | | **2,503** | 15,441 |

The notes on pages 34 to 87 form part of these financial statements.

# Notes to the Financial Statements

*For the year ended 31 December 2011*

## 1. GENERAL

The Company is incorporated in Bermuda as an exempted company with limited liability and its shares are listed on the Growth Enterprise Market ("GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The addresses of the registered office and principal place of business of the Company are disclosed in the Corporate Information section of the annual report.

The financial statements are presented in Hong Kong dollars, which is the functional currency of the Company. The principal activity of the Company is investment holding. The principal activities and other particulars of the subsidiaries are set out in note 38 to the financial statements.

## 2. SIGNIFICANT ACCOUNTING POLICIES

### (a) Statement of compliance

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), which is a collective term that includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on GEM of the Stock Exchange. A summary of the significant accounting policies adopted by the Group is set out below.

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the Group and the Company. Note 3 provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these financial statements.

### (b) Basis of preparation of the financial statements

#### *(i) Measurement basis, judgements, estimates and assumptions*

The consolidated financial statements for the year ended 31 December 2011 comprise the Company and its subsidiaries (together referred to as the "Group") and the Group's interest in associates.

The measurement basis used in the preparation of the financial statements is the historical cost basis.

Non-current assets and disposal groups held for sale are stated at the lower of carrying amount and fair value less costs to sell (see note 2(w)).

The preparation of financial statements in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of HKFRSs that have significant effect on the financial statements and major sources of estimation uncertainty are discussed in note 4.

## 2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (b) Basis of preparation of the financial statements *(Continued)*

#### *(ii) Going concern assumptions*

During the financial year ended 31 December 2011, the Group has recorded a loss attributable to equity holders of the Company of approximately HK$61,312,000. Apart from the income from forestry exploitation business during the financial year ended 31 December 2008, the Group has continued recording net losses for six consecutive financial years, the continuation of the Group as a going concern is dependent upon its ability to generate sufficient cash from operating activities in particular from the forestry. Notwithstanding the continuation of recorded net losses, the directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future and, accordingly, they continue to adopt the going concern basis in preparing the financial statements on the following bases:

(a) In March 2012, the Company entered into an acquisition agreement to acquire further 20% interest in Live Rise Group and the acquisition will result in LRT being owned as to 50% by the Group and becoming a jointly controlled entity of the Company. In addition, the vendor has provided a profit guarantee of HK$80 million for the year ending 31 December 2012. As represented by the management of Live Rise Group, the major shareholder of Live Rise Group is prepared to inject further fundings to fund the operations of Live Rise Group by way of shareholder's loan and Live Rise Group has been on trial production and is expected to commence commercial production in April 2012.

(b) Mr. Gong Ting, the substantial shareholder and an executive director of the Company, provided an undertaking to procure an amount of HK$30 million interest-free loan for the Company by the end of June 2012 to satisfy the Company's short-term working capital needs.

(c) The management of the Group is actively seeking new funds to the Group.

(d) The management of the forestry business of the Group, after discussion with the relevant Cambodian government department, has decided to revise the plantation schedule for 2012 and 2013 to defer the capital commitment so as to minimize the amount of cash to be used in the Group's investing activities in the next two years for improving the Group's financial position and overall cash flows.

(e) The management of the Group is actively seeking new business opportunities for the Group.

(f) The management of the Group has decided to adopt various cost control measures to reduce general administrative expenses and operating costs.

### (c) Subsidiaries and non-controlling interests

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account.

An investment in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases. Intra-group balances and transactions and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

## 2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (c) Subsidiaries and non-controlling interests *(Continued)*

Non-controlling interests represent the equity in a subsidiary not attributable directly or indirectly to the Company, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. For each business combination, the Group can elect to measure any non-controlling interests either at fair value or at their proportionate share of the subsidiary's net identifiable assets.

Non-controlling interests are presented in the consolidated statement of financial position within equity, separately from equity attributable to the equity shareholders of the Company. Non-controlling interests in the results of the Group are presented on the face of the consolidated statement of comprehensive income as an allocation of the total profit or loss and total comprehensive income for the year between non-controlling interests and the equity shareholders of the Company. Loans from holders of non-controlling interests and other contractual obligations towards these holders, if any, are presented as financial liabilities in the consolidated statement of financial position in accordance with notes 2(m), 2(n) and 2(o), depending on the nature of the liability.

Changes in the Group's interests in a subsidiary that do not result in a loss of control are accounted for as equity transactions, whereby adjustments are made to the amounts of controlling and non-controlling interests within consolidated equity to reflect the change in relative interests, but no adjustments are made to goodwill and no gain or loss is recognised.

When the Group loses control of a subsidiary, it is accounted for as a disposal of the entire interest in that subsidiary, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former subsidiary at the date when control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset.

In the Company's statement of financial position, an investment in a subsidiary is stated at cost less impairment losses (see note 2(j)), unless the investment is classified as held for sale (or included in a disposal group that is classified as held for sale) (see note 2(w)).

### (d) Associates

An associate is an entity in which the Group or Company has significant influence, but not control or joint control, over its management, including participation in the financial and operating policy decisions.

An investment in an associate is accounted for in the consolidated financial statements under the equity method, unless it is classified as held for sale (or included in a disposal group that is classified as held for sale) (see note 2(w)). Under the equity method, the investment is initially recorded at cost, adjusted for any excess of the Group's share of the acquisition-date fair values of the investee's identifiable net assets over the cost of the investment (if any). Thereafter, the investment is adjusted for the post acquisition change in the Group's share of the investee's net assets and any impairment loss relating to the investment (see notes 2(e) and (j)). Any acquisition-date excess over cost, the Group's share of the post-acquisition after-tax results of the investees and any impairment losses for the year are recognised in consolidated profit or loss, whereas the Group's share of the post-acquisition after-tax items of the investees' other comprehensive income is recognised in other comprehensive income.

## 2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (d) Associates *(Continued)*

When the Group's share of losses exceeds its interest in the associate, the Group's interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the investee. For this purpose, the Group's interest is the carrying amount of the investment under the equity method together with the Group's long-term interests that in substance form part of the Group's net investment in the associate.

Unrealised profits and losses resulting from transactions between the Group and its associates are eliminated to the extent of the Group's interest in the investee, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in profit or loss.

In the Company's statement of financial position, investments in associates are stated at cost less impairment losses (see note 2(j)), unless classified as held for sale (or included in a disposal group that is classified as held for sale) (see note 2(w)).

### (e) Goodwill

Goodwill represents the excess of:

(i) the aggregate of the fair value of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of the Group's previously held equity interest in the acquiree; over

(ii) the net fair value of the acquiree's identifiable assets and liabilities measured as at the acquisition date.

When (ii) is greater than (i), then this excess is recognised immediately in profit or loss as a gain on a bargain purchase.

Goodwill is stated at cost less accumulated impairment losses. Goodwill arising on a business combination is allocated to each cash-generating unit, or groups of cash generating units, that is expected to benefit from the synergies of the combination and is tested annually for impairment (see note 2(j)).

On disposal of a cash generating unit during the year, any attributable amount of purchased goodwill is included in the calculation of the profit or loss on disposal.

### (f) Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses (see note 2(j(ii)):

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal.

Depreciation is calculated to write off the cost of items of property, plant and equipment, less their estimated residual values, if any, using the straight line method over their estimated useful lives as follows:

| | |
|---|---|
| Buildings | Shorter of 50 years and the unexpired term of the lease |
| Constructed roads | 30 years |
| Medical equipment | 6 years |
| Motor vehicles | 5 years |
| Plant, machinery and equipment | 3-10 years |

Both the useful life of an asset and its residual value, if any, are reviewed annually.

## 2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (g) Biological assets

Biological assets, which include mature and immature rubber plantations, are stated at fair value less costs that would be necessary to sell the assets, with any resultant gain or loss recognised in profit or loss.

The fair value of the rubber plantations is estimated by reference to estimations management judgement using the discounted cash flows of the underlying biological assets.

The expected cash flows from the whole life cycle of the rubber plantations are determined using market prices and the estimated yield of the agricultural produce, net of maintenance and harvesting costs and any costs required to bring the rubber plantations to maturity. The estimated yield of the rubber plantations is dependent on the age of the rubber trees, the location of the plantations, soil type and infrastructure. The market prices of the produce are largely dependent on the prevailing market prices of rubber.

### (h) Intangible assets (other than goodwill)

Expenditure on research activities is recognised as an expense in the period in which it is incurred. Expenditure on development activities is capitalised if the product or process is technically and commercially feasible and the Group has sufficient resources and the intention to complete development. The expenditure capitalised includes the costs of materials, direct labour, and an appropriate proportion of overheads and borrowing costs, where applicable (see note 2(v)). Capitalised development costs are stated at cost less accumulated amortisation and impairment losses (see note 2(j)). Other development expenditure is recognised as an expense in the period in which it is incurred.

Other intangible assets that are acquired by the Group are stated at cost less accumulated amortisation (where the estimated useful life is finite) and impairment losses (see note 2(j)). Expenditure on internally generated goodwill and brands is recognised as an expense in the period in which it is incurred.

Amortisation of intangible assets with finite useful lives is charged to profit or loss on the straight-line basis over the assets' estimated useful lives. The following intangible assets with finite useful lives are amortised from the date they are available for use and their estimated useful lives are as follows:

| | |
|---|---|
| Forest exploitation rights | 70 years |

Both the period and method of amortisation are reviewed annually.

### (i) Leased assets

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Group determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

#### *(i) Classification of assets leased to the Group*

Assets that are held by the Group under leases which transfer to the Group substantially all the risks and rewards of ownership are classified as being held under finance leases. Leases which do not transfer substantially all the risks and rewards of ownership to the Group are classified as operating leases.

#### *(ii) Operating lease charges*

Where the Group has the use of assets held under operating leases, payments made under the leases are charged to profit or loss in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in profit or loss as an integral part of the aggregate net lease payments made. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

The cost of acquiring land held under an operating lease is amortised on the straight-line basis over the shorter of the estimated useful lives and the period of the lease term less impairment losses (see note 2(j)).

## 2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (j) Impairment of assets

#### *(i) Impairment of trade and other receivables*

Current and non-current receivables that are stated at cost or amortised cost are reviewed at the end of each reporting period to determine whether there is objective evidence of impairment. Objective evidence of impairment includes observable data that comes to the attention of the Group about one or more of the following loss events:

— significant financial difficulty of the debtor;

— a breach of contract, such as a default or delinquency in interest or principal payments;

— it becoming probable that the debtor will enter bankruptcy or other financial reorganisation;

— significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; and

— a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

If any such evidence exists, any impairment loss is determined and recognised as follows:

— For investments in subsidiaries and associates (including those recognised using the equity method (see note 2(d))), the impairment loss is measured by comparing the recoverable amount of the investment with its carrying amount in accordance with note 2(j)(ii). The impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount in accordance with note 2(j)(ii).

— For trade and other current receivables and other financial assets carried at amortised cost, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets), where the effect of discounting is material. This assessment is made collectively where financial assets carried at amortised cost share similar risk characteristics, such as similar past due status, and have not been individually assessed as impaired. Future cash flows for financial assets which are assessed for impairment collectively are based on historical loss experience for assets with credit risk characteristics similar to the collective group.

— If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

Impairment losses are written off against the corresponding assets directly, except for impairment losses recognised in respect of trade debtors included within trade and other receivables, whose recovery is considered doubtful but not remote. In this case, the impairment losses for doubtful debts are recorded using an allowance account. When the Group is satisfied that recovery is remote, the amount considered irrecoverable is written off against trade debtors directly and any amounts held in the allowance account relating to that debt are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognised in profit or loss.

## 2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (j) Impairment of assets *(Continued)*

#### *(ii) Impairment of other assets*

Internal and external sources of information are reviewed at the end of each reporting period to identify indications that the following assets may be impaired or an impairment loss previously recognised no longer exists or may have decreased:

— property, plant and equipment;

— pre-paid interests in leasehold land classified as being held under an operating lease;

— intangible assets; and

— goodwill.

If any such indication exists, the asset's recoverable amount is estimated. In addition, for goodwill, intangible assets that are not yet available for use and intangible assets that have indefinite useful lives, the recoverable amount is estimated annually whether or not there is any indication of impairment.

— *Calculation of recoverable amount*

The recoverable amount of an asset is the greater of its fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

— *Recognition of impairment losses*

An impairment loss is recognised in profit or loss if the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or group of units) and then, to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs to sell, or value in use, if determinable.

— *Reversals of impairment losses*

In respect of assets other than goodwill, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is not reversed.

A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.

## 2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (k) Inventories

Inventories are carried at the lower of cost and net realisable value.

Cost is calculated using the weighted average cost formula and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

### (l) Trade and other receivables

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost less allowance for impairment of doubtful debts (see note 2(j)), except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less any allowances for impairment of doubtful debts.

### (m) Convertible bonds

Convertible bonds that can be converted to equity share capital at the option of the holder, where the number of shares that would be issued on conversion and the value of the consideration that would be received at that time do not vary, are accounted for as compound financial instruments which contain both a liability component and an equity component.

At initial recognition, the liability component of the convertible bonds is measured as the present value of the future interest and principal payments, discounted at the market rate of interest applicable at the time of initial recognition to similar liabilities that do not have a conversion option. Any excess of proceeds over the amount initially recognised as the liability component is recognised as the equity component. Transaction costs that relate to the issue of a compound financial instrument are allocated to the liability and equity components in proportion to the allocation of proceeds.

The liability component is subsequently carried at amortised cost. The interest expense recognised in profit or loss on the liability component is calculated using the effective interest method. The equity component is recognised in the capital reserve until either the bond is converted or redeemed.

If the bond is converted, the capital reserve, together with the carrying amount of the liability component at the time of conversion, is transferred to share capital and share premium as consideration for the shares issued. If the bond is redeemed, the capital reserve is released directly to retained profits.

### (n) Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between the amount initially recognised and redemption value being recognised in profit or loss over the period of the borrowings, together with any interest and fees payable, using the effective interest method.

## 2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (o) Trade and other payables

Trade and other payables are initially recognised at fair value and are subsequently stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

### (p) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition.

### (q) Employee benefits

#### *(i) Short term employee benefits and contributions to defined contribution retirement plans*

Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

#### *(ii) Share-based payments*

The fair value of share options granted to employees is recognised as an employee cost with a corresponding increase in a capital reserve within equity. The fair value is measured at grant date using the binomial option pricing model, taking into account the terms and conditions upon which the options were granted. Where the employees have to meet vesting conditions before becoming unconditionally entitled to the options, the total estimated fair value of the options is spread over the vesting period, taking into account the probability that the options will vest.

During the vesting period, the number of share options that is expected to vest is reviewed. Any resulting adjustment to the cumulative fair value recognised in prior years is charged/credited to the profit or loss for the year of the review, unless the original employee expenses qualify for recognition as an asset, with a corresponding adjustment to the capital reserve. On vesting date, the amount recognised as an expense is adjusted to reflect the actual number of options that vest (with a corresponding adjustment to the capital reserve) except where forfeiture is only due to not achieving vesting conditions that relate to the market price of the Company's shares. The equity amount is recognised in the capital reserve until either the option is exercised (when it is transferred to the share premium account) or the option expires (when it is released directly to retained profits).

### (r) Income tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent they relate to items recognised in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognised in other comprehensive income or directly in equity, respectively.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the end of the reporting period, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

## 2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (r) Income tax *(Continued)*

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deducible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the end of the reporting period. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at the end of each reporting period and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Additional income taxes that arise from the distribution of dividends are recognised when the liability to pay the related dividends is recognised.

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if the Company or the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

— in the case of current tax assets and liabilities, the Company or the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or

— in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:

    — the same taxable entity; or

    — different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

## 2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (s) Provisions and contingent liabilities

Provisions are recognised for other liabilities of uncertain timing or amount when the Group or the Company has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

### (t) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in profit or loss as follows:

#### *(i) Sale of goods*

Revenue is recognised when goods are delivered at the customer premises which is taken to be the point in time when the customer has accepted the goods and/or the related risks and rewards of ownership have been transferred to the customers. Revenue excludes value-added tax or other sales taxes and is after deduction of any trade discounts.

#### *(ii) Service fee income*

Service income is recognised when the services are provided.

#### *(iii) Interest income*

Interest income is recognised as it accrues using the effective interest method.

## 2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (u) Translation of foreign currencies

Foreign currency transactions during the year are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the end of the reporting period. Exchange gains and losses are recognised in profit or loss.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was determined.

The results of foreign operations are translated into Hong Kong dollars at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Statement of financial position items are translated into Hong Kong dollars at the closing foreign exchange rates at the end of the reporting period. The resulting exchange differences are recognised in other comprehensive income and accumulated separately in equity in the exchange reserve.

On disposal of a foreign operation, the cumulative amount of the exchange differences relating to that foreign operation is reclassified from equity to profit or loss when the profit or loss on disposal is recognised.

### (v) Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset. Other borrowing costs are expensed in the period in which they are incurred.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or complete.

### (w) Non-current assets held for sale and discontinued operations

#### *(i) Non-current assets held for sale*

A non-current asset (or disposal group) is classified as held for sale if it is highly probable that its carrying amount will be recovered through a sale transaction rather than through continuing use and the asset (or disposal group) is available for sale in its present condition. A disposal group is a group of assets to be disposed of together as a group in a single transaction, and liabilities directly associated with those assets that will be transferred in the transaction.

When the Group is committed to a sale plan involving loss of control of a subsidiary, all the assets and liabilities of that subsidiary are classified as held for sale when the above criteria for classification as held for sale are met, regardless of whether the Group will retain a non-controlling interest in the subsidiary after the sale.

## 2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (w) Non-current assets held for sale and discontinued operations *(Continued)*

#### *(i)* ***Non-current assets held for sale*** *(Continued)*

Immediately before classification as held for sale, the measurement of the non-current assets (and all individual assets and liabilities in a disposal group) is brought up-to-date in accordance with the accounting policies before the classification. Then, on initial classification as held for sale and until disposal, the non-current assets (except for certain assets as explained below), or disposal groups, are recognised at the lower of their carrying amount and fair value less costs to sell. The principal exceptions to this measurement policy so far as the financial statements of the Group and the Company are concerned are deferred tax assets, assets arising from employee benefits and financial assets (other than investments in subsidiaries). These assets, even if held for sale, would continue to be measured in accordance with the policies set out in note 2.

Impairment losses on initial classification as held for sale, and on subsequent remeasurement while held for sale, are recognised in profit or loss. As long as a non-current asset is classified as held for sale, or is included in a disposal group that is classified as held for sale, the non-current asset is not depreciated or amortised.

#### *(ii)* ***Discontinued operations***

A discontinued operation is a component of the Group's business, the operations and cash flows of which can be clearly distinguished from the rest of the Group and which represents a separate major line of business or geographical area of operations, or is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations, or is a subsidiary acquired exclusively with a view to resale.

Classification as a discontinued operation occurs upon disposal or when the operation meets the criteria to be classified as held for sale (see (i) above), if earlier. It also occurs if the operation is abandoned.

Where an operation is classified as discontinued, a single amount is presented on the face of the statement of comprehensive income, which comprises:

— the post-tax profit or loss of the discontinued operation; and

— the post-tax gain or loss recognised on the measurement to fair value less costs to sell, or on the disposal, of the assets or disposal group(s) constituting the discontinued operation.

## 2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (x) Related parties

(a) A person, or a close member of that person's family, is related to the Group if that person:

(i) has control or joint control over the Group;

(ii) has significant influence over the Group; or

(iii) is a member of the key management personnel of the Group or the Group's parent.

(b) An entity is related to the Group if any of the following conditions applies:

(i) The entity and the Group are members of the same Group (which means that each parent, subsidiary, and fellow subsidiary is related to the others).

(ii) One entity is an associate or joint venture of the other entity (for an associate or joint venture of a member of a Group of which the other entity is a member).

(iii) Both entities are joint ventures of the same third party.

(iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

(v) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group.

(vi) The entity is controlled or jointly controlled by a person identified in (a).

(vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

### (y) Segment reporting

Operating segments, and the amounts of each segment item reported in the financial statements, are identified from the financial information provided regularly to the Group's most senior executive management for the purposes of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

## 3. CHANGES IN ACCOUNTING POLICIES

The HKICPA has issued a number of amendments to HKFRSs and one new Interpretation that are first effective for the current accounting period of the Group and the Company. Of these, the following developments are relevant to the Group's financial statements:

- HKAS 24 (revised 2009), *Related party disclosures*
- Improvements to HKFRSs (2010)
- HK(IFRIC) 19, *Extinguishing financial liabilities with equity instruments*
- Amendments to HKAS 32 "Financial Instruments: Presentation — Classification of Rights Issues"
- Amendments to HK(IFRIC) 14, *HKAS 19 — The limit on a defined benefit asset, minimum funding requirements and their interaction — Prepayments of a minimum funding requirement*

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

The amendments to HK(IFRIC) 14 have had no material impact on the Group's financial statements as they were consistent with policies already adopted by the Group. HK(IFRIC) 19 and the amendments to HKAS 32 have not yet had a material impact on the Group's financial statements as these changes will first be effective as and when the Group enters a relevant transaction.

The impacts of other developments are discussed below:

- HKAS 24 (revised 2009) revises the definition of a related party. As a result, the Group has re-assessed the identification of related parties and concluded that the revised definition does not have any material impact on the Group's related party disclosures in the current and previous periods. HKAS 24 (revised 2009) also introduces modified disclosure requirements for government-related entities. This does not impact the Group because the Group is not a government-related entity.

- *Improvements to HKFRSs (2010)* omnibus standard introduces a number of amendments to the disclosure requirements in HKFRS 7, *Financial instruments: Disclosures*. The disclosures on the Group's financial instruments conform to the amended disclosure requirements. These amendments do not have any material impact on the classification, recognition and measurement of the amounts recognised in the financial statements in the current and previous periods.

## 4. ACCOUNTING JUDGMENTS AND ESTIMATES

In the application of the Group's accounting policies, which are described in note 2, management is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

**Sources of estimation uncertainty**

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

***(i) Impairment of intangible assets and goodwill***

In considering the impairment losses that may be required for the Group's intangible assets, the recoverable amount of the asset needs to be determined. The recoverable amount is the greater of the net selling price and the value in use. It is difficult to precisely estimate selling prices because quoted market prices for these assets may not be readily available.

In determining the value in use, expected cash flows generated by the asset are discounted to their present value, which requires significant judgement relating to items such as level of sales volume, selling prices and amounts of operating costs. The Group uses all readily available information in determining an amount that is reasonable approximation of the recoverable amount, including estimates based on reasonable and supportable assumptions and projections of items such as sales volume, selling prices and amounts of operating costs.

Changes in these estimates could have a significant impact on the carrying values of the assets and could result in impairment charges in future periods.

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating unit to which goodwill has been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value. The carrying amount of goodwill at the end of the reporting period was HK$18,579,000 and no impairment losses were recognised during 2011.

## 4. ACCOUNTING JUDGMENTS AND ESTIMATES *(Continued)*

**Sources of estimation uncertainty** *(Continued)*

***(ii) Impairment losses on trade and other receivables***

Impairment losses on trade and other receivables are assessed and provided based on the directors' regular review and evaluation of collectibility. A considerable level of judgement is exercised by the directors when assessing the credit worthiness and past collection history of each individual customer. Any increase or decrease in the impairment losses for bad and doubtful debts would have a significant impact in profit and loss.

***(iii) Depreciation and amortisation***

Management reviews the estimated useful lives of the assets regularly in order to determine the amount of depreciation and amortisation expenses to be charged for the year. Management determined that the useful life of the forest exploitation rights located in Cambodia is 70 years based on its expertise in the forestry industry. It could change significantly as a result of changes in such market. The useful lives of other assets are based on the Group's historical experience with similar assets. The depreciation and amortisation expenses for future periods could be adjusted if there are significant changes from previous estimates.

***(iv) Valuation of convertible bonds***

The directors use their judgment in selecting an appropriate valuation technique for the Group's convertible bonds which are not quoted in an active market. Valuation techniques commonly used by market practitioners are applied. The fair values of the liability and equity components inside the convertible bonds are estimated by an independent professional valuer. The fair values of these components vary with different variables for certain subjective assumptions. Any changes in these variables so adopted may materially affect the estimation of the fair values of these components.

***(v) Fair value of biological assets***

The Group's biological assets are valued at fair value less costs to sell. In determining the fair value of the biological assets, management has applied the income approach which requires a number of key assumptions and estimates to be made such as discount rate, log prices, plantation costs, growth and harvesting costs. Any changes in these estimates may affect the fair value of the biological assets significantly. The professional valuer and management review the assumptions and estimates periodically to identify any significant changes in the fair values of biological assets.

***(vi) Write down for obsolete or slow-moving inventories***

The Group writes down its obsolete or slow-moving inventories based on an assessment of their estimated net selling prices. Inventories are written down when events or changes in circumstances indicate that the carrying amounts may not be recoverable. Management specifically analyses current economic trends when making judgements to evaluate the adequacy of the write downs for obsolete or slow-moving inventories. Where expectations differ from the original estimates, the differences will impact the carrying amount of inventories.

## 4. ACCOUNTING JUDGMENTS AND ESTIMATES *(Continued)*

**Sources of estimation uncertainty** *(Continued)*

***(vii) Business combinations***

For the business combinations undertaken by the Group, the Group allocates the costs of the acquired entities to the assets acquired and the liabilities assumed based on their estimated fair value on the date of acquisition. This process is commonly referred to as the purchase price allocation. As part of the purchase price allocation, the Group is required to determine the fair value of any identifiable intangible assets acquired. The determination of the fair values of the intangible assets acquired involves certain judgements and estimates. These judgements can include, but are not limited to, the cash flows that an asset is expected to generate in the future.

The fair values of the identifiable intangible assets, if any were determined by the Group with input from independent valuers using mainly the income approach. Future cash flows are predominately based on the historical pricing and expense levels, taking into consideration the relevant market and growth factors. The resulting cash flows are then discounted at a rate which approximate the Group's weighted average cost of capital.

A change in the amount allocated to identifiable intangible assets would have an offsetting effect on the amount of goodwill recognised arising from the acquisition which would change the amount of amortisation expense recognised related to those identifiable intangible assets.

## 5. TURNOVER

An analysis of the Group's turnover for the year is as follows:

| | **Continuing operations** | | **Discontinued operations** | | **Total** | |
|---|---|---|---|---|---|---|
| | **2011** | 2010 | **2011** | 2010 | **2011** | 2010 |
| | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* |
| Sales of wood products | **59** | 2,960 | **—** | — | **59** | 2,960 |
| Sales of coal | **145** | — | **—** | — | **145** | — |
| Research and development service fees | **—** | — | **—** | 1,193 | **—** | 1,193 |
| | **204** | 2,960 | **—** | 1,193 | **204** | 4,153 |

## 6. SEGMENT INFORMATION

The Group determines its operating segments based on reports reviewed by the chief operating decision-makers that are used to make strategic decisions.

The Group has three reportable segments as follows:

| | | |
|---|---|---|
| Natural resources | — | Wood products manufacturing and plantation |
| Logistics | — | Coal logistics and trading |
| Manufacturing | — | Design and manufacture of plastic and wooden household products |

The Group's reportable segments are strategic business units that offer different products and services. They are managed separately because each business requires different technology and marketing strategies.

The accounting policies of the operating segments are the same as those described in note 2 to the financial statements. Segment profits or losses do not include corporate income and expenses, finance costs and deferred tax expense arising from withholding tax on dividends. Segment assets do not include investments and amounts due from related parties. Segment liabilities do not include interest-bearing loans, deferred tax liabilities arising from withholding tax on dividends, and other payables for corporate purposes.

The segments information is as follows:

| | Natural resources *HKD'000* | Logistics *HKD'000* | Manufacturing *HKD'000* | Total *HKD'000* |
|---|---|---|---|---|
| **Year ended 31 December 2011** | | | | |
| Revenue from external customers | **59** | **145** | **—** | **204** |
| Segment profit/(loss) | **(40,488)** | **5,732** | **—** | **(34,756)** |
| Interest income | **7** | **—** | **—** | **7** |
| Depreciation and amortisation | **15,263** | **1,837** | **—** | **17,100** |
| Other material item of income and expenses | | | | |
| — Brokerage fee income | **—** | **7,848** | **—** | **7,848** |
| Income tax expenses | **—** | **1,529** | **—** | **1,529** |
| Additions to segment non-current assets | **34,602** | **13,953** | **—** | **48,555** |
| Investment in associates | **—** | **—** | **120,968** | **120,968** |
| **As at 31 December 2011** | | | | |
| Segment assets | **927,254** | **35,775** | **—** | **963,029** |
| Segment liabilities | **29,450** | **4,871** | **—** | **34,321** |

## 6. SEGMENT INFORMATION *(Continued)*

| | Natural resources HKD'000 | Total HKD'000 |
|---|---|---|
| **Year ended 31 December 2010** | | |
| Revenue from external customers | 2,960 | 2,960 |
| Segment loss | 30,557 | 30,557 |
| Interest income | 2 | 2 |
| Depreciation and amortisation | 9,220 | 9,220 |
| Additions to segment non-current assets | 8,764 | 8,764 |
| **As at 31 December 2010** | | |
| Segment assets | 915,012 | 915,012 |
| Segment liabilities | 990 | 990 |

Reconciliations of reportable segment revenue, profit or loss, assets and liabilities:

**Segment revenue**

| | **2011 HKD'000** | 2010 HKD'000 |
|---|---|---|
| Total revenue of reportable segments | **204** | 2,960 |
| Consolidated revenue | **204** | 2,960 |

**Segment profit/(loss)**

| | **2011 HKD'000** | 2010 HKD'000 |
|---|---|---|
| Total loss of reportable segments | **(36,285)** | (30,557) |
| Unallocated amounts: | | |
| Corporate expenses | **(16,678)** | (6,482) |
| Corporate income | **391** | 4,589 |
| Finance costs | **(8,743)** | (1,457) |
| Consolidated loss after tax | **(61,315)** | (33,907) |

**Assets**

| | **2011 HKD'000** | 2010 HKD'000 |
|---|---|---|
| Total assets of reportable segments | **963,029** | 915,012 |
| Investment in associates | **120,968** | — |
| Unallocated corporate assets | **3,381** | 14,610 |
| Consolidated total assets | **1,087,378** | 929,622 |

## 6. SEGMENT INFORMATION *(Continued)*

**Liabilities**

| | **2011** **HKD'000** | 2010 HKD'000 |
|---|---|---|
| Total liabilities of reportable segments | **34,321** | 990 |
| Other segment liabilities | **10,267** | 20,569 |
| | **44,588** | 21,559 |
| Current tax liabilities | **1,552** | — |
| Unallocated amounts — Convertible bonds | **—** | 174,808 |
| Consolidated total liabilities | **46,140** | 196,367 |

**Geographical information**

| | **Revenue** | | **Non-current assets** | |
|---|---|---|---|---|
| | **2011** **HK$'000** | 2010 HK$'000 | **2011** **HK$'000** | 2010 HK$'000 |
| Cambodia | **59** | 2,960 | **909,060** | 895,228 |
| PRC | **145** | — | **147,597** | 74 |
| Hong Kong | **—** | — | **69** | 37 |
| Consolidated total | **204** | 2,960 | **1,056,726** | 895,339 |

In presenting the geographical information, revenue is based on the locations of the customers.

**Revenue from major customers**

Revenue from one customer in the Group's coal logistic and trading business represents approximately HK$117,000 of the Group's total revenue.

## 7. OTHER REVENUE AND NET INCOME

| | **Continuing operations** | | **Discontinued operations** | | **Total** | |
|---|---|---|---|---|---|---|
| | **2011** **HK$'000** | 2010 HK$'000 | **2011** **HK$'000** | 2010 HK$'000 | **2010** **HK$'000** | 2010 HK$'000 |
| **Other revenue** | | | | | | |
| Bank interest income | **9** | 3 | **1** | 8 | **10** | 11 |
| Other sales | **333** | — | **—** | — | **333** | — |
| Brokerage fees | **7,848** | — | **—** | — | **7,848** | — |
| Consideration for medical equipment subsidiary | **—** | 4,588 | **—** | — | **—** | 4,588 |
| | **8,190** | 4,591 | **1** | 8 | **8,191** | 4,599 |
| **Other net income** | | | | | | |
| Net gain on disposal of property, plant and equipment | **14** | 44 | **—** | — | **14** | 44 |
| | **14** | 44 | **—** | — | **14** | 44 |

## 8. LOSS BEFORE TAXATION

Loss before taxation is arrived at after charging:

| | Continuing operations | | Discontinued operations | | Total | |
|---|---|---|---|---|---|---|
| | **2011** | 2010 | **2011** | 2010 | **2011** | 2010 |
| | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* |
| **Finance costs** | | | | | | |
| Imputed interest expense *(note 28)* | **8,743** | 1,457 | **—** | — | **8,743** | 1,457 |
| | **8,743** | 1,457 | **—** | — | **8,743** | 1,457 |
| **Staff costs** | | | | | | |
| (including directors' remuneration disclosed in note 11) | | | | | | |
| Salaries, wages and other benefits | **11,312** | 8,180 | **29** | 1,197 | **11,341** | 9,377 |
| Share based payments *(note 33)* | **696** | 1,116 | **—** | — | **696** | 1,116 |
| Staff retirement benefits | **74** | 92 | **—** | 41 | **74** | 133 |
| | **12,082** | 9,388 | **29** | 1,238 | **12,111** | 10,626 |
| Impairment loss recognised in respect of trade and other receivables | **7,000** | 916 | **—** | — | **7,000** | 916 |
| **Other items** | | | | | | |
| Cost of inventories *(note 23)* | **991** | 2,811 | **—** | — | **991** | 2,811 |
| Depreciation | **4,985** | 1,628 | **4** | 36 | **4,989** | 1,664 |
| Auditors' remuneration | | | | | | |
| — audit services | **1,006** | 945 | **5** | 4 | **1,011** | 949 |
| — other services | **342** | 383 | **—** | — | **342** | 383 |
| Placing expenses | **1,605** | — | **—** | — | **1,605** | — |
| Processing documentation fees for timber-exportation | **2,307** | 13,613 | **—** | — | **2,307** | 13,613 |
| Operating lease charges in respect of office premises | **1,110** | 619 | **—** | 143 | **1,110** | 762 |
| Amortisation of prepaid lease payments | **—** | — | **—** | 69 | **—** | 69 |
| Amortisation of forest exploitation rights | **12,734** | 7,696 | **—** | — | **12,734** | 7,696 |
| Inventory written off | **869** | — | **—** | — | **869** | — |
| Property, plant and equipment written off | **79** | — | **—** | — | **79** | — |

## 9. TAXATION

(a) *(i)* ***Hong Kong profits tax***

No provision for Hong Kong Profits Tax has been made as the Group did not have any assessable profits in Hong Kong during the year.

*(ii)* ***PRC Income tax***

The Company's subsidiaries, 梨樹縣衛通科技有限責任公司 and IM Mining, are subject to PRC income tax of 25%.

No provision for PRC Income Tax has been made for the Company's other subsidiaries. Tat Lung Medical Treatment (Shenzhen) Ltd and Guilin Simei Biotechnology Ltd., as they did not have assessable profits for the year determined in accordance with the relevant income tax rules and regulations in the PRC.

*(iii)* ***Cambodia tax on profits***

No provision for Cambodia Tax on Profits has been made for the Company's subsidiaries as they did not have any assessable profits for the year determined in accordance with the relevant tax rules and regulations in Cambodia.

(b) **Reconciliation between taxation and loss before taxation at applicable tax rates:**

| | **2011** | 2010 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Loss before taxation: | | |
| Continuing operations | **(59,624)** | (42,367) |
| Discontinued operations | **(151)** | 8,460 |
| | **(59,775)** | (33,907) |
| Notional tax on loss before taxation, calculated at the rates applicable to the countries concerned | **(6,307)** | (6,781) |
| Tax effect of non-deductible expenses | **7,942** | 6,781 |
| Tax effect on non-taxable revenue | **(95)** | — |
| Taxation for the year | **1,540** | — |

(c) No provision for deferred taxation is deemed necessary as the Group does not have any material deductible or taxable temporary differences (2010: HK$Nil).

## 10. ASSETS OF DISPOSAL GROUP CLASSIFIED AS HELD FOR SALES AND DISCONTINUED OPERATIONS

**Disposal of development and sale of tropical plants for universe drugs and medicine usage business**

The assets and liabilities related to Guilin Simei Biotechnology Limited (the "disposal company") for the year ended 31 December 2011 was presented as held for sale following the plan for a sale made by the Group's management during the year ended 31 December 2011 to sell the development and sale of tropical plants for universe drugs and medicine usage business. The disposal was completed on 31 January 2012.

***(a) Assets and liabilities of disposal company classified as held for sale***

| | **2011** *HK$'000* |
|---|---|
| Property, plant and equipment | **37** |
| Cash at bank and on hand | **1** |
| Assets classified as held for sale | **38** |
| Amount due to a fellow subsidiary | **(538)** |
| Liabilities associated with assets classified as held for sale | **(538)** |
| Net liabilities classified as held for sale | **(500)** |

***(b) Analysis of the results of discontinued operations, and the results recognised on the re-measurement of assets or disposal company, is as follows:***

| | **2011** *HK$'000* |
|---|---|
| Revenue | — |
| Expenses | **(151)** |
| Loss before taxation | **(151)** |
| Taxation | — |
| | **(151)** |
| Loss for the year from discontinued operations | **(151)** |

## 10. ASSETS OF DISPOSAL GROUP CLASSIFIED AS HELD FOR SALES AND DISCONTINUED OPERATIONS *(Continued)*

**Disposal of development and sale of tropical plants for universe drugs and medicine usage business** *(Continued)*

***(c) Cash flows from discontinued operations:***

| | **2011** |
|---|---|
| | ***HK$'000*** |
| Net cash used in operating activities | **(145)** |
| Net cash from investing activities | **1** |
| Net cash from financing activities | **—** |
| | **(144)** |

**Disposal of medical research and development of drugs business**

The assets and liabilities related to Medical China Technology Limited, China Best Drugs Research (Nanjing) Ltd. and China Best Pharmaceutical (Nanjing) Co., Ltd. (the "disposal group") for the year ended 31 December 2009 were presented as held for sale following the plan for sale made by the Group's management during the year ended 31 December 2009 to sell the medical research and development of drags business. The disposal was completed on 24 June 2010. Details of the disposal of subsidiaries are disclosed in note 22.

***(d) Assets and liabilities of disposal group classified as held for sale***

| | 2009 |
|---|---|
| | *HK$'000* |
| Property, plant and equipment | 224 |
| Construction in progress | 13,831 |
| Prepaid lease payments | 1,365 |
| Intangible assets – medical research projects | 15,597 |
| Inventories | 84 |
| Trade and other receivables | 84 |
| Cash at bank and on hand | 7,696 |
| Assets classified as held for sale | 38,881 |
| Trade and other payables | 24,010 |
| Amount due to Medical Equipment Subsidiary | 2,272 |
| Liabilities associated with assets classified as held for sale | 26,282 |
| Net assets classified as held for sale | 12,599 |

## 10. ASSETS OF DISPOSAL GROUP CLASSIFIED AS HELD FOR SALES AND DISCONTINUED OPERATIONS *(Continued)*

**Disposal of medical research and development of drugs business** *(Continued)*

***(e) Analysis of the result of discontinued operations, and the result recognised on the re-measurement of assets or disposal group, is as follows:***

| | **2010** | 2009 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Revenue | **1,201** | 3,653 |
| Expenses | **(5,001)** | (3,665) |
| Loss before taxation | **(3,800)** | (12) |
| Taxation | **—** | — |
| | **(3,800)** | (12) |
| Loss on re-measurement to fair value less costs to sell | | |
| — Construction in progress | **—** | (17,936) |
| — Medical research projects | **—** | (1,799) |
| Gain on disposal of operations *(Note 22)* | **12,260** | — |
| | **12,260** | (19,735) |
| Profit/(loss) for the year from discontinued operations | **8,460** | (19,747) |

***(f) Cash flows from discontinued operations:***

| | **2010** | 2009 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Net cash used in operating activities | **(2,942)** | (413) |
| Net cash from/(used in) investing activities | **8** | (3,177) |
| Net cash from financing activities | **—** | — |
| | **(2,934)** | (3,590) |

### 11. DIRECTORS' REMUNERATION

Directors' remuneration disclosed pursuant to Section 161 of the Hong Kong Companies Ordinance are as follows:

| | Directors' fees | | Salaries, allowances and benefits in kind | | Discretionary bonuses | | Retirement scheme contributions | | Sub-Total | | Share-based payments *(Note)* | | Total | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | **2011** | 2010 | **2011** | 2010 | **2011** | 2010 | **2011** | 2010 | **2011** | 2010 | **2011** | 2010 | **2011** | 2010 |
| | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* |
| **Executive directors** | | | | | | | | | | | | | | |
| Leung Sze Yuan, Alan | **–** | – | **552** | 519 | **–** | 81 | **12** | 12 | **564** | 612 | **282** | 452 | **846** | 1,064 |
| Zhang Zhenzhong | **–** | – | **75** | 490 | **–** | – | **–** | – | **75** | 490 | **–** | 452 | **75** | 942 |
| Chultemsuren Gankhuyag | **–** | – | **119** | – | **–** | – | **–** | – | **119** | – | **–** | – | **119** | – |
| Zeng Lingchen | **–** | – | **180** | 42 | **–** | – | **–** | – | **180** | 42 | **–** | – | **180** | 42 |
| Gong Ting | **–** | – | **180** | 18 | **–** | – | **–** | – | **180** | 18 | **–** | – | **180** | 18 |
| **Non-executive directors** | | | | | | | | | | | | | | |
| Li Nga Kuk, James | **–** | 94 | **–** | – | **–** | 58 | **–** | – | **–** | 152 | **–** | – | **–** | 152 |
| Li Tai To, Titus | **–** | 148 | **–** | – | **–** | 131 | **–** | – | **–** | 279 | **–** | – | **–** | 279 |
| **Independent non-executive directors** | | | | | | | | | | | | | | |
| Fan Wan Tat | **–** | 97 | **–** | – | **–** | 93 | **–** | – | **–** | 190 | **–** | – | **–** | 190 |
| Tam Wai Leung, Joseph | **120** | 120 | **–** | – | **–** | – | **–** | – | **120** | 120 | **–** | – | **120** | 120 |
| Chan Kim Chung, Daniel | **53** | 120 | **–** | – | **–** | – | **–** | – | **53** | 120 | **–** | – | **53** | 120 |
| Zhang Ying | **120** | 23 | **–** | – | **–** | – | **–** | – | **120** | 23 | **–** | – | **120** | 23 |
| Wen Huiying | **121** | 17 | **–** | – | **–** | – | **–** | – | **121** | 17 | **–** | – | **121** | 17 |
| | **414** | 619 | **1,106** | 1,069 | **–** | 363 | **12** | 12 | **1,532** | 2,063 | **282** | 904 | **1,814** | 2,967 |

*Note:*

These represent the estimated value of share options granted to directors under the Company's share option scheme. The value of these share options is measured according to the Group's accounting policies for share-based payment transactions as set out in note 2(q)(ii) and, in accordance with that policy, includes adjustments to reverse amounts accrued in previous years where grants of equity instruments are forfeited prior to vesting.

The details of these benefits in kind, including the principal terms and number of options granted, are disclosed under the paragraph "Share option scheme" in the report of the directors and note 33.

# Notes to the Financial Statements

*For the year ended 31 December 2011*

## 11. DIRECTORS' REMUNERATION *(Continued)*

No emoluments were paid by the Group to directors as an inducement to join or upon joining the Group or as compensation for loss of office during the year ended 31 December 2011.

All directors are appointed for one year terms and renewal terms are agreed by the Remuneration Committee annually.

## 12. INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, one (2010: two) is director whose emoluments are disclosed in note 11. The aggregate of the emoluments in respect of the remaining four (2010: three) individuals are as follows:

| | **2011**<br>***HK$'000*** | 2010<br>*HK$'000* |
|---|---|---|
| Basic salaries, allowances and other benefits | **2,704** | 1,058 |
| Discretionary bonuses | **—** | 42 |
| Share based payments | **576** | 98 |
| Retirement benefit scheme contributions | **48** | 12 |
| | **3,328** | 1,210 |

The emoluments of the four (2010: three) individuals with the highest emoluments are within the following bands:

| $ | **2011**<br>***Number of Individuals*** | 2010<br>*Number of Individuals* |
|---|---|---|
| Nil – $1,000,000 | **4** | 3 |

## 13. LOSS ATTRIBUTABLE TO EQUITY SHAREHOLDERS OF THE COMPANY

The consolidated loss attributable to equity shareholders of the Company includes a loss of approximately HK$19,611,000 (2010: Loss of HK$3,401,000) which has been dealt with in the financial statements of the Company.

Reconciliation of the above amount to the Company's loss for the year:

| | **2011**<br>***HK$'000*** | 2010<br>*HK$'000* |
|---|---|---|
| Amount of consolidated loss attributable to equity shareholders dealt with in the Company's financial statements | **(19,611)** | (3,401) |
| Company's loss for the year *(note 30)* | **(19,611)** | (3,401) |

## 14. EARNINGS/(LOSS) PER SHARE

The calculation of the basic and diluted earnings/(loss) per share attributable to the ordinary equity shareholders of the Company is based on the following data:

### (a) Basic earnings/(loss) per share

The calculation of basic earnings/(loss) per share is based on the loss attributable to the ordinary equity shareholders of the Company of approximately HK$61,312,000 (2010: loss of HK$33,907,000) and the weighted average of 1,902,322,000 ordinary shares (2010: 510,224,000 shares) during the year, calculated as follows:

***Weighted average number of ordinary shares***

| | **2011** | 2010 |
|---|---|---|
| | ***'000*** | *'000* |
| Issued ordinary shares at 1 January | **778,540** | 381,000 |
| Effect of issuance of shares from open offer | **—** | 106,889 |
| Effect of issuance of share placement | **104,926** | — |
| Effect of consideration shares issued | **107,380** | 21,488 |
| Effect of conversion shares from convertible bonds | **911,476** | 847 |
| Weighted average number of ordinary shares at 31 December | **1,902,322** | 510,224 |

### (b) Diluted earnings/(loss) per share

No diluted earnings/(loss) per share has been presented for the year ended 31 December 2011 and 2010 as the exercise of share options and the conversion of outstanding convertible bonds would result in an anti-dilutive effect.

## 15. PROPERTY, PLANT AND EQUIPMENT

### (a) The Group

| | Buildings | Constructed roads | Medical equipment | Motor vehicles | Plant, machinery and equipment | Leasehold Improvements | Total |
|---|---|---|---|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| **Cost** | | | | | | | |
| At 1 January 2010 | 5,559 | 15,825 | 424 | 1,856 | 851 | — | 24,515 |
| Additions | | | | | | | |
| — through acquisition of subsidiaries *(note 20)* | — | 3,565 | — | — | — | — | 3,565 |
| — by the Group | 697 | 3,923 | — | 552 | 27 | — | 5,199 |
| Disposals | — | — | — | (135) | — | — | (135) |
| Reclassification | (856) | 856 | — | — | — | — | — |
| Exchange adjustments | 3 | — | 2 | 24 | 5 | — | 34 |
| At 31 December 2010 | 5,403 | 24,169 | 426 | 2,297 | 883 | — | 33,178 |
| At 1 January 2011 | 5,403 | 24,169 | 426 | 2,297 | 883 | — | 33,178 |
| Additions | | | | | | | |
| — through acquisition of subsidiaries *(note 20)* | — | — | — | — | 13,953 | — | 13,953 |
| — by the Group | 1,597 | 1,807 | — | 195 | 9,727 | 43 | 13,369 |
| Asset held for sale | (58) | — | — | (302) | (12) | — | (372) |
| Transfer to biological assets | — | (4,737) | — | — | — | — | (4,737) |
| Disposals | — | — | — | (535) | (91) | — | (626) |
| Written-off | (79) | — | — | — | — | — | (79) |
| Exchange adjustments | 2 | — | 4 | 22 | 273 | — | 301 |
| **At 31 December 2011** | **6,865** | **21,239** | **430** | **1,677** | **24,733** | **43** | **54,987** |

## 15. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

### (a) The Group *(Continued)*

| | Buildings HK$'000 | Constructed roads HK$'000 | Medical equipment HK$'000 | Motor vehicles HK$'000 | Plant, machinery and equipment HK$'000 | Leasehold Improvements HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|---|---|
| **Accumulated depreciation** | | | | | | | |
| At 1 January 2010 | 168 | 275 | 389 | 892 | 337 | — | 2,061 |
| Charge for the year | 618 | 540 | 7 | 327 | 136 | — | 1,628 |
| Write-back on disposal | — | — | — | (54) | — | — | (54) |
| Exchange adjustments | — | — | 3 | 22 | 4 | — | 29 |
| At 31 December 2010 | 786 | 815 | 399 | 1,187 | 477 | — | 3,664 |
| At 1 January 2011 | 786 | 815 | 399 | 1,187 | 477 | — | 3,664 |
| Charge for the year | 840 | 692 | 27 | 333 | 3,087 | 6 | 4,985 |
| Write-back on disposal | — | — | — | (414) | (86) | — | (500) |
| Assets held for sale | (22) | — | — | (302) | (11) | — | (335) |
| Through acquisition of subsidiary | — | — | — | — | 4,236 | — | 4,236 |
| Exchange adjustments | 5 | — | 4 | 23 | 112 | — | 144 |
| **At 31 December 2011** | **1,609** | **1,507** | **430** | **827** | **7,815** | **6** | **12,194** |
| **Net book value** | | | | | | | |
| **At 31 December 2011** | **5,256** | **19,732** | **—** | **850** | **16,918** | **37** | **42,793** |
| At 31 December 2010 | 4,617 | 23,354 | 27 | 1,110 | 406 | — | 29,514 |

The buildings of the Group are situated as follows:

| | **2011** ***HK$'000*** | 2010 *HK$'000* |
|---|---|---|
| PRC | **—** | 39 |
| Cambodia | **5,256** | 4,578 |
| | **5,256** | 4,617 |

## 15. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

### (b) The Company

| | Leasehold improvements *HK$'000* | Computer equipment *HK$'000* | Total *HK$'000* |
|---|---|---|---|
| **Cost** | | | |
| At 1 January 2010, 31 December 2010 & 1 January 2011 | — | 189 | 189 |
| Additions | 43 | — | 43 |
| **At 31 December 2011** | **43** | **189** | **232** |
| **Accumulated depreciation** | | | |
| At 1 January 2010 | — | 137 | 137 |
| Charge for the year | — | 15 | 15 |
| At 31 December 2010 | — | 152 | 152 |
| At 1 January 2011 | — | 152 | 152 |
| Charge for the year | 6 | 15 | 21 |
| **At 31 December 2011** | **6** | **167** | **173** |
| **Net book value** | | | |
| **At 31 December 2011** | **37** | **22** | **59** |
| At 31 December 2010 | — | 37 | 37 |

## 16. BIOLOGICAL ASSETS

| | **2011** ***HK$'000*** | 2010 *HK$'000* |
|---|---|---|
| At 1 January | **—** | — |
| Transfer from property, plant and equipment | **4,737** | — |
| Additions | **16,558** | — |
| At 31 December | **21,295** | — |

### (a) Analysis of biological asset

| | **2011** ***Hectares*** | 2010 *Hectares* |
|---|---|---|
| Planted area — Immature plants | **950** | — |

**(b)** As at the end of reporting date, the carrying amount of biological assets amounting to approximately HK$21,295,000 (2010: Nil) represented the land clearing and plantation costs which was incurred during the year ended 31 December 2011.

## 17. INVESTMENT IN SUBSIDIARIES

| | The Company | |
|---|---|---|
| | **2011** | 2010 |
| | ***HK$'000*** | *HK$'000* |
| **Unlisted shares, at cost** | | |
| At beginning of the year | **937,987** | 540,433 |
| Additions | **25** | — |
| Through acquisition *(note 20)* | **—** | 388,824 |
| Reclassification from amounts due from subsidiaries | **—** | 62,732 |
| Reclassification to amounts due from subsidiaries | **(929,916)** | — |
| Disposals | **—** | (46,475) |
| Impairment | **—** | (7,527) |
| | **8,096** | 937,987 |

The principal activities and other particulars of the subsidiaries are set out in note 38.

## 18. INTANGIBLE ASSETS

| | **Forest exploitation rights** |
|---|---|
| | *HK$'000* |
| **Cost** | |
| At 1 January 2010 | 506,758 |
| Additions through acquisition of subsidiaries *(note 20)* | 384,714 |
| At 31 December 2010 | 891,472 |
| At 1 January 2011 | 891,472 |
| Additions | — |
| **At 31 December 2011** | **891,472** |
| **Accumulated amortisation** | |
| At 1 January 2010 | 17,951 |
| Charge for the year | 7,696 |
| At 31 December 2010 | 25,647 |
| At 1 January 2011 | 25,647 |
| Charge for the year | 12,734 |
| **At 31 December 2011** | **38,381** |
| **Carrying value** | |
| **At 31 December 2011** | **853,091** |
| At 31 December 2010 | 865,825 |

## 18. INTANGIBLE ASSETS *(Continued)*

**Forest exploitation rights**

The Group first acquired an exclusive right to exploit the forest located in Kratie District, Kratie Province, Cambodia for a period of 70 years during the year ended 31 December 2007 and acquired an additional exclusive right during the year ended 31 December 2008. During the year ended 31 December 2010, the Group acquired the additional exclusive right to exploit the forest area located adjacent to the original two forests. Details of the acquisitions are set out in note 20.

Amortisation of forest exploitation rights are charged to profit or loss on the straight-line basis over the assets' estimated useful lives of 70 years. At 31 December 2011, the directors of the Company reviewed the carrying values of the forest exploitation rights, taking into account an independent valuation report prepared by a professional valuer. Based on the assessment and the valuation report, the directors are of the opinion that there are currently no indications that the values of the forest exploitation rights may be impaired.

## 19. GOODWILL

| | **The Group** *HK$'000* |
|---|---|
| **Cost** | |
| At 1 January 2010, 31 December 2010 and 1 January 2011 | — |
| Arising on acquisition of a subsidiary *(note 20)* | 18,579 |
| **At 31 December 2011** | **18,579** |
| **Accumulated impairment losses** | |
| At 1 January 2010, 31 December 2010 and 1 January 2011 | — |
| Impairment loss recognised in the current year | — |
| **At 31 December 2011** | **—** |
| **Carrying amount** | |
| At 31 December 2011 | **18,579** |
| At 31 December 2010 | — |

Goodwill acquired in a business combination is allocated, at acquisition, to the cash generating unit ("CGU") that are expected to benefit from that business combination.

| | **2011** ***HK$'000*** | 2010 *HK$'000* |
|---|---|---|
| Coal logistic and trading business | | |
| Inner Mongolia Huayue Company Limited ("IM Mining") | **18,579** | — |

The recoverable amount of the CGU is determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by management covering a five-year period. Cash flows beyond the five-year period are extrapolated using an estimated weighted average growth rate of 2%, The growth rates used do not exceed the long-term average growth rates for the business in which the CGU operates. The cash flows are discounted using a discount rate of 13.14%. The discount rates used are pre-tax and reflect specific risks relating to the relevant segments. No impairment loss recognised during the year.

## 20. ACQUISITION OF SUBSIDIARIES

### (1) Acquisition of Richking Development Limited

On 26 November 2010, Forest Glen Group Limited, a wholly-owned subsidiary of the Company, acquired the entire equity interest of Richking Development Limited and its subsidiaries, Mighty Pine Limited and Crops and Land Development (Cambodia) Co. Limited, for a total consideration of approximately HK$388,824,000.

#### *(a) Assets acquired and liabilities recognised at the date of acquisition*

| | **Fair value to the Group** *HK$'000* |
|---|---|
| Intangible assets — Forest exploitation rights *(note 18)* | 384,714 |
| Property, plant and equipment *(note 15)* | 3,565 |
| Deposits and prepayments | 799 |
| Other payables | (254) |
| | 388,824 |
| Satisfied by: | |
| Convertible bonds *(note 28)* | 282,070 |
| Consideration shares *(note 29)* | 106,754 |
| Total consideration | 388,824 |

The above acquisition has been accounted for as an acquisition of assets.

#### *(b) Net cash flow on acquisition of subsidiaries*

No cash flow movement arise from the acquisition of subsidiaries as no cash or cash equivalents were acquired from or paid to the subsidiaries by the Group.

## 20. ACQUISITION OF SUBSIDIARIES *(Continued)*

### (2) Acquisition of IM Mining

On 15 June 2011, Linkbest System Development Limited, a wholly-owned subsidiary of the Company, obtained control of IM Mining, for a cash consideration of HK$25,000,000. To date, the Group still has not obtained the approval from the relevant PRC authorities in respect of the transfer of ownership of the equity interest in IM Mining.

#### *(a) Assets acquired and liabilities recognised at the date of acquisition*

| | *HK$'000* |
|---|---|
| Property, plant and machinery — net book value | 9,717 |
| Deposits, other receivables and prepayments | 1,205 |
| Tax recoverable | 77 |
| Cash and bank | 20 |
| Other payables | (615) |
| Amounts due to related parties | (3,983) |
| | 6,421 |
| Goodwill acquired on acquisition | 18,579 |
| | 25,000 |
| Satisfied by: | |
| Cash | 25,000 |
| Net cash outflow arising on acquisition: | |
| Cash consideration paid | (25,000) |
| Cash and bank acquired | 20 |
| | (24,980) |

## 21. INTEREST IN ASSOCIATES

Reference is made to the Company's announcement dated 28 July 2011 in relation to the acquisition of 30% of the issued share capital of a company that will be principally engaged in the design and manufacture of plastic household and related products. The consideration was satisfied by the allotment and issue of 483,870,967 new shares in the Company of par value of HK$0.05 each. This acquisition was completed on 12 October 2011 and the fair value of consideration shares as at the date of completion amounted to approximately HK$120,968,000.

| | **The Group 2011** ***HK$'000*** | **The Company 2011** ***HK$'000*** |
|---|---|---|
| Unlisted shares, at cost | — | **120,968** |
| Share of net assets | **30,602** | — |
| Goodwill on acquisition | **90,366** | — |
| | **120,968** | **120,968** |

## 21. INTEREST IN ASSOCIATES *(Continued)*

Particulars of the associate Group as at 31 December 2011 are as follows:

| Name of associate | Place of incorporation and operation | Particulars of issued and paid-up capital | Percentage of equity interest attributable to the Company *Direct* | *Indirect* | Principal activities | Registered capital |
|---|---|---|---|---|---|---|
| Live Rise Technology Limited ("LRT") | British Virgin Islands | USD100 | 30% | — | Investment holding | USD50,000 |
| China Capital Holdings Limited | Hong Kong | HKD10,000 | — | 30% | Investment holding | HKD10,000 |
| 佛山市德盛弘達模具塑料有限公司 | PRC | RMB5,000 | — | 30% | Design and manufacture of plastic and wooden household and related products | HKD60,000,000* |

* As at 31 December 2011 and up to the date of the report, the registered capital of this company has not yet been contributed.

The Group's associates are not audited by KLC Kennic Lui & Co. Ltd., Certified Public Accountants (Practising).

A summary of financial information in respect of the associates is as follows:

| | **2011** **HK$'000** |
|---|---|
| Total assets | **204,005**# |
| Total liabilities | **(102,000)** |
| Net assets | **102,005** |
| The Group's share of net assets of associates — 30% | **30,602** |
| Turnover | **—** |
| Loss for the year | **(15)** |
| The Group's share of loss for the year of the associates | **(5)** |

# Total assets consist of a receivable of RMB85 million owed by the vendor of Live Rise Technology Limited, of which HK$60 million is to be injected into 佛山市德盛弘達模具塑料有限公司 as registered capital.

## 22. DISPOSAL OF SUBSIDIARIES

On 24 June 2010, the Group disposed of the entire capital of the disposal group at a consideration of HK$12,000,000 as disclosed in note 10.

### (a) Analysis of the net assets disposed of

| | 24 June 2010 *HK$'000* |
|---|---|
| Property, plant and equipment | 174 |
| Construction in progress | 10,332 |
| Intangible assets — medical research projects | 19,897 |
| Inventories | 12 |
| Trade and other receivables | 4,284 |
| Cash and cash equivalents | 4,766 |
| Trade and other payables | (28,394) |
| Amount due to medical equipment subsidiary | (2,272) |
| Non-controlling interest | 915 |
| Net assets disposed of | 9,714 |

### (b) Gain on disposal of subsidiaries

| | 2010 *HK$'000* |
|---|---|
| Consideration received and receivable | 12,000 |
| Net assets disposal of | (9,714) |
| Cumulative exchange differences in respect of the net assets of the subsidiaries reclassified from equity to profit or loss upon disposal | 9,974 |
| Gain on disposal | 12,260 |

The gain on disposal is included in the profit for the year from discontinued operations in the consolidated statement of comprehensive income (note 10(e)).

### (c) Net cash inflow arising on disposal of subsidiaries

| | 2010 *HK$'000* |
|---|---|
| Consideration received in cash and cash equivalents | 12,000 |
| Cash and cash equivalents disposed of | (4,766) |
| | 7,234 |

## 23. INVENTORIES

| | **2011** **HK$'000** | 2010 *HK$'000* |
|---|---|---|
| Raw materials | **146** | — |
| Work in progress | **2,269** | — |
| Finished goods | **2,318** | 1,637 |
| | **4,733** | 1,637 |

The analysis of the amount of inventories recognised as expense and included in profit or loss is as follows:

| | **2011** **HK$'000** | 2010 *HK$'000* |
|---|---|---|
| Carrying amount of inventories sold | **122** | 2,811 |
| Write-down of inventories | **869** | — |
| | **991** | 2,811 |

## 24. TRADE AND OTHER RECEIVABLES

| | **The Group** | | **The Company** | |
|---|---|---|---|---|
| | **2011** **HK$'000** | 2010 *HK$'000* | **2011** **HK$'000** | 2010 *HK$'000* |
| Trade debtors | **2,001** | 2,001 | **—** | — |
| *Less:* allowance for doubtful debts | **(2,001)** | (1,085) | **—** | — |
| | **—** | 916 | **—** | — |
| Other receivables and prepayments | **25,435** | 13,850 | **155** | 155 |
| *Less:* allowance for doubtful debts | **(6,084)** | — | **—** | — |
| | **19,351** | 13,850 | **155** | 155 |
| Amounts due from related parties | **2,245** | — | **—** | — |
| Deposits paid | **1,782** | 2,439 | **28** | 32 |
| | **23,378** | 17,205 | **183** | 187 |

All of the trade and other receivables are expected to be recovered or recognised as an expense within one year.

## 24. TRADE AND OTHER RECEIVABLES *(Continued)*

### (a) Ageing analysis

Included in trade and other receivables are trade debtors (net of allowance for doubtful debts) with the following ageing analysis as of the end of the reporting period:

| | The Group | |
|---|---|---|
| | **2011** | 2010 |
| | ***HK$'000*** | *HK$'000* |
| Within 3 months from the date of billing | **—** | 916 |

### (b) Impairment of trade receivables

Impairment losses in respect of trade receivables are recorded using an allowance account unless the Group is satisfied that recovery of amounts are remote, in which case an impairment loss is changed against trade debtors directly (note 2(j)(i)).

The movement in the allowance for doubtful debts during the year is as follows:

| | The Group | |
|---|---|---|
| | **2011** | 2010 |
| | ***HK$'000*** | *HK$'000* |
| Balance at beginning of the year | **1,085** | 169 |
| Impairment loss recognised | **916** | 916 |
| Balance at end of the year | **2,001** | 1,085 |

At 31 December 2011, the Group's trade receivables were all individually determined to be impaired. The individually impaired receivable related to a customer that management assessed that only a portion of the receivable is expected to be recovered. The Group does not hold any collateral over these balances.

### (c) Other receivables, prepayments and deposits paid

Other receivables of the Group mainly represented the balance of service fee income amounting to HK$12,324,000 and broker fee income amounting to HK$8,439,000 receivable from independent third parties. The service fee income is receivable from a PRC company and the management assessed that only a portion of the receivable is expected to be recovered. An impairment loss of HK$6,084,000 has been recognized in respect of this receivable for the year ended 31 December 2011.

## 25. AMOUNTS DUE FROM SUBSIDIARIES

The amounts due from subsidiaries are unsecured, non-interest bearing and have no fixed terms of repayment.

## 26. OTHER PAYABLES

| | The Group | | The Company | |
|---|---|---|---|---|
| | **2011** | 2010 | **2011** | 2010 |
| | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* |
| Amount due to related parties* | **23,077** | — | **—** | — |
| Other payables and accrued liabilities | **20,626** | 21,246 | **4,176** | 15,953 |
| Financial liabilities measured at amortised cost | **43,703** | 21,246 | **4,176** | 15,953 |

* The amounts due to related parties are unsecured, interest free and have no fixed terms of repayment. Further details on related party transactions are disclosed in note 34.

## 27. AMOUNTS DUE TO SUBSIDIARIES

The amounts due to subsidiaries are unsecured, non-interest bearing and have no fixed terms of repayment.

## 28. CONVERTIBLE BONDS

On 26 November 2010, the Company issued zero coupon convertible bonds in the principal amount of approximately HK$282,070,000 as part of the consideration for the acquisition of Richking Development Limited and its subsidiaries (note 20). The convertible bonds did not bear interest, had a maturity date of five years from the date of issuance and were repayable after five years from the date of issuance or convertible into shares of the Company at a conversion price of HK$0.22 per share at any time after the issue date. All the convertible bonds were fully converted during the year ended 31 December 2011.

The movement of the liability and equity components of the convertible bonds for the year is set out below:

| | **Liability component** | **Equity component** | **Total** |
|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK'000* |
| Issuance of convertible bonds on 26 November 2010 | 175,394 | 106,676 | 282,070 |
| Conversion to shares during the period | (2,043) | (2,269) | (4,312) |
| Imputed interest expense charge during the period | 1,457 | — | 1,457 |
| At 31 December 2010 | 174,808 | 104,407 | 279,215 |
| At 1 January 2011 | 174,808 | 104,407 | 279,215 |
| Conversion to shares during the year | (171,662) | (104,407) | (276,069) |
| Imputed interest expense charge during the year | 8,743 | — | 8,743 |
| Transfer to retained earnings | (11,889) | — | (11,889) |
| At 31 December 2011 | — | — | — |

Imputed interest expenses on the convertible bonds is calculated using the effective interest method by applying the interest rate of 9.97% per annum to the liability component.

## 29. SHARE CAPITAL

| | Notes | 2011<br>No. of shares<br>'000 | 2011<br>Amount per share<br>HK$ | 2011<br>Amount<br>HK$'000 | 2010<br>No. of shares<br>'000 | 2010<br>Amount per share<br>HK$ | 2010<br>Amount<br>HK$'000 |
|---|---|---|---|---|---|---|---|
| **Authorised** | | | | | | | |
| At beginning of the year | | **4,000,000** | **0.05** | **200,000** | 5,000,000 | 0.01 | 50,000 |
| Increase during the year | *(ii)* | — | — | — | 15,000,000 | 0.01 | 150,000 |
| | | — | — | — | 20,000,000 | 0.01 | 200,000 |
| Share consolidation | *(iii)* | — | — | — | (16,000,000) | — | — |
| At end of the year | | **4,000,000** | **0.05** | **200,000** | 4,000,000 | 0.05 | 200,000 |
| **Issued and paid up** | | | | | | | |
| At beginning of the year | | **778,540** | **0.05** | **38,927** | 1,905,000 | 0.01 | 19,050 |
| Open offer of shares | *(i)* | — | — | — | 762,000 | 0.01 | 7,620 |
| | | **778,540** | **0.05** | **38,927** | 2,667,000 | 0.01 | 26,670 |
| Share consolidation | *(iii)* | — | — | — | (2,133,600) | — | — |
| | | **778,540** | **0.05** | **38,927** | 533,400 | 0.05 | 26,670 |
| Issue of shares | *(iv)* | **483,871** | **0.05** | **24,194** | 217,867 | 0.05 | 10,893 |
| Share placement | *(v)* | **106,680** | **0.05** | **5,334** | — | — | — |
| Conversion of shares | *(vi)* | **1,254,860** | **0.05** | **62,743** | 27,273 | 0.05 | 1,364 |
| At end of the year | | **2,623,951** | **0.05** | **131,198** | 778,540 | 0.05 | 38,927 |

*Notes:*

(i) On 20 April 2010, the issued share capital of the Company was increased to HK$26,670,000 following the open offer of 762,000,000 new shares.

(ii) Pursuant to an ordinary resolution passed at a special general meeting of the Company held on 6 October 2010, the authorised share capital of the Company was increased from HK$50,000,000 to HK$200,000,000 by the creation of an additional 15,000,000,000 ordinary shares of HK$0.01 each.

(iii) Pursuant to an ordinary resolution passed at a special general meeting of the Company held on 6 October 2010, the share capital of the Company was consolidated on the basis that every five issued and unissued shares of HK$0.01 each into one consolidated share of HK$0.05 each.

(iv) On 26 November 2010, the Company increased its issued share capital by HK$10,893,000 by issuing approximately 217,867,000 consideration shares for the acquisition of Richking Development Limited and its subsidiaries (note 20).

On 12 October 2011, the Company increased its issued share capital by HK$24,194,000 by issuing approximately 483,871,000 consideration share for the acquisition of 30% of the issued share capital of Live Rise Technology Limited (note 21).

(v) On 7 January 2011, the Company completed a placing of new shares under its general mandate. Issued share capital increased by HK$5,334,000 by issuing 106,680,000 placing shares.

(vi) During the year ended 31 December 2010, the holders of the convertible bonds exercised their conversion rights and converted 27,273,000 conversion shares. The amount of share, capital of the Company was further increased by HK$1,364,000 to a total of HK$38,927,000 accordingly.

During the year ened 31 December 2011, the holders of the convertible bonds exercised their conversion rights and converted 1,254,860,000 conversion shares in total. The amount of share capital of the Company was further increased by HK$62,743,000 as a result of the issue of conversion shares.

## 30. RESERVES

### (a) Movements in components of equity

The reconciliation between the opening and closing balances of each component of the Group's consolidated equity is set out in the consolidated statement of changes in equity. Details of the changes in the Company's individual components of equity (other than share capital as disclosed in note 29) between the beginning and the end of the year are set out below:

**The Company**

| | Share premium HK$'000 | Contributed surplus HK$'000 | Capital reserve HK$'000 | Share options reserve HK$'000 | Retained profits/ (Accumulated losses) HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|---|
| At 1 January 2010 | 497,783 | 5,265 | — | 9,197 | (202,897) | 309,348 |
| **Transactions with owners** | | | | | | |
| Issue of shares | 103,482 | — | — | — | — | 103,482 |
| Recognition of equity-settled share based payments | — | — | — | 1,116 | — | 1,116 |
| Lapse of share options | — | — | — | (2,070) | 2,070 | — |
| Issue of convertible bonds | — | — | 106,676 | — | — | 106,676 |
| Conversion of convertible bonds | 2,948 | — | (2,269) | — | — | 679 |
| Total transactions with owners | 106,430 | — | 104,407 | (954) | 2,070 | 211,953 |
| **Comprehensive income** | | | | | | |
| Loss for the year *(note 13)* | — | — | — | — | (3,401) | (3,401) |
| At 31 December 2010 | 604,213 | 5,265 | 104,407 | 8,243 | (204,228) | 517,900 |
| **At 1 January 2011** | **604,213** | **5,265** | **104,407** | **8,243** | **(204,228)** | **517,900** |
| **Transactions with owners** | | | | | | |
| Issue of shares | **96,774** | **—** | **—** | **—** | **—** | **96,774** |
| Recognition of equity-settled share based payments | **—** | **—** | **—** | **696** | **—** | **696** |
| Lapse of share options | **—** | **—** | **—** | **(5,457)** | **5,457** | **—** |
| Share placement | **58,674** | **—** | **—** | **—** | **—** | **58,674** |
| Conversion of convertible bonds | **213,326** | **—** | **(104,407)** | **—** | **11,889** | **120,808** |
| Total transactions with owners | **368,774** | **—** | **(104,407)** | **(4,761)** | **17,346** | **276,952** |
| **Comprehensive income** | | | | | | |
| Loss for the year *(note 13)* | **—** | **—** | **—** | **—** | **(19,611)** | **(19,611)** |
| **At 31 December 2011** | **972,987** | **5,265** | **—** | **3,482** | **(206,493)** | **775,241** |

## 30. RESERVES *(Continued)*

### (b) Nature and purpose of reserves

#### *(i) Share premium*

The application of the share premium account is governed by Bye-Law 140(A) of the Company's Bye-Laws and the Companies Act 1981 of Bermuda ("Companies Act").

#### *(ii) Contributed surplus*

Pursuant to a reorganisation in 2001, the Company became the holding company of the Group. The excess of the consolidated net assets represented by the shares acquired over the nominal value of the shares issued by the Company in exchange under the reorganisation was transferred to contributed surplus. Contributed surplus is available for distribution to shareholders subject to the provisions of Section 54 of the Companies Act.

#### *(iii) Capital reserve*

Capital reserve comprises the amount allocated to the unexercised equity component of convertible bonds issued by the Company recognised in accordance with the accounting policy adopted for convertible bonds in note 2(m).

#### *(iv) Share options reserve*

Share options reserve comprises the portion of grant date fair value of unexercised share options granted to employees of the Company recognised in accordance with the accounting policy adopted for share-based payments in note 2(q)(ii).

#### *(v) Exchange reserve*

The exchange reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations. The reserve is dealt with in accordance with the accounting policy set out in note 2(u).

## 31. COMMITMENTS

### Capital commitments

Capital commitments outstanding at 31 December 2011 contracted but not provided for in the financial statements were as follows:

| | **2011** | 2010 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Plantation and clearing of forests | **13,969** | 3,394 |
| Property, plant and equipment | **311** | — |
| Continuing operations | **14,280** | 3,394 |
| Discontinued operations | **—** | — |
| | **14,280** | 3,394 |

### Operating lease commitments

At 31 December 2011, the total future minimum lease payments under non-cancellable operating leases in respect of land and buildings are payable as follows:

| | **2011** | 2010 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Within 1 year | **397** | 407 |
| After 1 year but within 5 years | **—** | 36 |
| After 5 years | **—** | 179 |
| | **397** | 622 |
| Continuing operations | **396** | 622 |
| Discontinued operations | **1** | — |
| | **397** | 622 |

The Group leases a number of properties under operating leases. The leases typically run for an initial period of one or two years with options to renew when all terms are renegotiated. The leases do not include contingent rentals.

## 32. EMPLOYEE RETIREMENT BENEFITS

### Defined contribution retirement plan

#### *Hong Kong*

The Group operates a defined contributed Mandatory Provident Fund Scheme (the "MPF scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance for employees employed under the jurisdiction of the Hong Kong Employment Ordinance and not previously covered by a defined benefit retirement plan. The MPF scheme is a defined contribution retirement plan administered by independent trustees. Under the MPF scheme, the employer and its employees are each required to make contributions to the plan at 5% of the employees' relevant income, subject to a cap of monthly relevant income of $20,000. Contributions to the plan vest immediately.

## 32. EMPLOYEE RETIREMENT BENEFITS *(Continued)*

**Defined contribution retirement plan** *(Continued)*

***The PRC***

The PRC subsidiaries of the Group participate in a mandatory central pension scheme organised by the PRC government for certain of its employees, the assets of which are held separately from those of the Group. Contributions made are based on a percentage of the eligible employee salaries and are charged to profit or loss as they became payable, in accordance with the rules of the scheme. The employer contributions vest fully once they are made.

Under the above schemes, retirement benefits of existing and retired employees are payable by the relevant scheme administrators and the Group has no further obligations beyond the annual contributions.

The aggregate amount of employer contributions by the Group in respect of retirement benefit schemes dealt with in profit or loss of the Group is disclosed in note 8 of the financial statements.

## 33. SHARE-BASED PAYMENT TRANSACTIONS

On June 2011, pursuant to an ordinary resolution passed by the shareholders of the Company, the Company adopted a new share option scheme (the "Share Option Scheme") and terminated the prior share option scheme which was adopted on 14 December 2001 pursuant to which any employees and directors of the Company and its subsidiaries may be granted options to subscribe for shares of the Company.

At 31 December 2011, the number of shares in respect of which options had been granted and remained outstanding under the Scheme was Nil (2010: 13,300,000) and 18,087,000 (2010: 24,260,000) after the consolidation of shares by the Company on 6 October 2010, representing 0.69% (2010: 3.12%) of the shares of the Company in issue at that date. The total number of shares in respect of which options may be granted under the Scheme is not permitted to exceed 10% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders. The number of shares issued and to be issued in respect of which options granted and may be granted to any individual in any one year is not permitted to exceed 1% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders. Options granted to independent non-executive directors in excess of 0.1% of the Company's share capital or with a value in excess of HK$5 million must be approved in advance by the Company's shareholders.

No consideration is payable on the grant of an option. Options may be exercised on the first or second anniversary of the respective date of grant. The exercise price is determined by the directors of the Company, and will not be less than the higher of (i) the closing price of the Company's shares on the date of grant; (ii) the average closing price of the shares for the five business days immediately preceding the date of grant; and (iii) the nominal value of the Company's shares.

(a) Details of specific categories of options are as follows:

| Date of grant | Exercise period | Fair value at grant date<br>HK$ | Exercise price<br>HK$ | Adjusted exercise price<br>*(Note (i))*<br>HK$ | Share consolidation<br>*(Note (ii))*<br>HK$ |
|---|---|---|---|---|---|
| **Directors** | | | | | |
| 31 March 2008 | 31 March 2010 to 30 March 2012 | 0.085 | 0.21 | 0.163 | 0.815 |
| 4 June 2010 | 4 June 2011 to 3 June 2014 | 0.02482 | 0.073 | — | 0.365 |
| **Employees** | | | | | |
| 31 March 2008 | 31 March 2010 to 30 March 2012 | 0.085 | 0.21 | 0.163 | 0.815 |
| 4 June 2010 | 4 June 2010 to 3 June 2014 | 0.02482 | 0.073 | — | 0.365 |

## 33. SHARE-BASED PAYMENT TRANSACTIONS *(Continued)*

(a) (Continued)

In accordance with the terms of the share-based arrangement, options issued during the financial year ended 31 December 2008 vested on the second anniversary of the date of grant, while options issued during the financial year ended 31 December 2010 vested on the first anniversary of the date of grant.

On 13 October 2011, all the outstanding options issued on 12 October 2007 aggregating 6,173,000 were expired and lapsed.

(b) The number and weighted average exercise prices of share options are as follows:

| | | **2011** | | 2010 | |
|---|---|---|---|---|---|
| | *Note* | **Weighted average exercise price** | **Number of options *'000*** | Weighted average exercise price | Number of options *'000* |
| Outstanding at the beginning of the period | | **0.825** | **24,260** | 0.344 | 57,500 |
| Adjusted exercise price | *(i)* | **—** | **—** | 0.267 | 73,929 |
| Share consolidated | *(ii)* | **—** | **—** | 1.355 | 14,786 |
| Exercise during the period | | **—** | **—** | — | — |
| Forfeited during the period | | **1.750** | **(6,173)** | 1.200 | (3,826) |
| Granted during the period | | **—** | **—** | 0.365 | 13,300 |
| Outstanding at the end of the period | | **0.509** | **18,087** | 0.825 | 24,260 |
| Exercisable at the end of the period | | **0.509** | **18,087** | 0.950 | 19,070 |

The weighted average share price at the date of exercise for shares options exercised during the year was HK$0.35 (2010: HK$0.43).

The options outstanding at 31 December 2011 had an exercise price of HK$0.365 or HK$0.815 (2010: range from HK$0.365 to HK$1.750) and a weighted average remaining contractual life of 1.7 years (2010: 2.2 years)

(c) Fair value of share options and assumptions

No share options were granted during the financial year (2010: HK$1,116,000). Options were priced using a binomial option pricing model ("Binomial model"). Where relevant, the expected life used in the model has been adjusted based on management's best estimates for the effects of non-transferability, exercise restrictions (including the probability of meeting market conditions attached to the option), and behavioural considerations. Expected volatility is based on the historical share price volatility over past years. To allow for the effects of early exercise, it was assumed that executives and senior employees would exercise the options after the vesting date when the share price was one and a half or two and a half times the respective exercise price.

## 33. SHARE-BASED PAYMENT TRANSACTIONS *(Continued)*

**Inputs in the model:**

| | | |
|---|---|---|
| Date of grant | 4/6/2010 | 31/3/2008 |
| Grant date share price | 0.365 | 0.206 |
| Exercise price | 0.073 | 0.210 |
| Expected volatility | 53.70% | 18.55% |
| Option life | 4 years | 2 years |
| Vesting period | 1 year | 2 years |
| Risk-free interest rate | 1.37% | 1.837% |

The Binomial model has been used to estimate the fair value of the options. The variables and assumptions used in computing the fair value of the share options are based on director best estimates. The value of an option varies with different variables in certain subjective assumptions.

The following table shows the movements of the Company's share options held by employees and directors during the year.

| Date of Grant | Outstanding at 1/1/2010 '000 | Adjusted number *(Note (i))* '000 | Granted during the year '000 | Share consolidation *(Note (ii))* '000 | Lapsed during the year '000 | Outstanding at 31/12/2010 '000 | Lapsed during the year '000 | Outstanding at 31/12/2011 '000 |
|---|---|---|---|---|---|---|---|---|
| 12/10/2007 | 32,000 | 41,143 | — | 8,229 | (2,056) | 6,173 | (6,173) | — |
| 31/3/2008 | 25,500 | 32,786 | — | 6,557 | (770) | 5,787 | — | 5,787 |
| 4/6/2010 | — | — | 66,500 | 13,300 | (1,000) | 12,300 | — | 12,300 |
| | 57,500 | 73,929 | 66,500 | 28,086 | (3,826) | 24,260 | (6,173) | 18,087 |

*Notes:*

(i) As a result of the open offer of 762,000,000 shares by the Company on 20 April 2010 (note 29), the numbers and the exercise prices of the share options outstanding were adjusted accordingly. The adjustments were made pursuant to the Scheme and in compliance with the GEM Listing Rules and supplementary guidance issued by the Stock Exchange on 5 September 2005.

(ii) As a result of the share consolidation on the basis of every five shares consolidated into one share on 6 October 2010 (note 29), the numbers and the exercise prices of the share options outstanding were adjusted accordingly.

## 34. MATERIAL RELATED PARTY TRANSACTIONS

**Transactions and balances**

The Group had the following significant business transactions and balances with connected parties and related companies during the year:

| | Note | **2011** ***HK'000*** | 2010 *HK'000* |
|---|---|---|---|
| Salary paid to a former director | *(i)* | **—** | 34 |
| Management fee paid to a related company | *(i)* | **—** | 17 |
| Rental paid to a related company | *(i)* | **—** | 179 |
| Acquisition of subsidiaries | *(ii)* | **25,000** | — |
| Amounts due to related parties | *(iii) (iv)* | **6,353** | — |
| Amount due to a key management employee | *(v)* | **18,202** | — |

## 34. MATERIAL RELATED PARTY TRANSACTIONS *(Continued)*

### Transactions and balances *(Continued)*

*Notes:*

(i) The Group paid salary of approximately HK$34,000 to former director, Mr. Li Wo Hing, who is also a substantial shareholder of the Company, during the year ended 31 December 2010. The Group also paid rental and building management fees to a company of which Mr. Li Wo Hing is a director and has an equity interest in during the year ended 31 December 2010.

(ii) On 28 January 2011, the Group entered into an acquisition agreement with the vendors to acquire the entire registered capital of IM Mining, of which a substantial shareholder and director of the Company, Mr. Gong Ting was also a shareholder and director for a consideration of HK$25,000,000.

(iii) An amount of approximately HK$4,784,000 represented a general advance from a related party of which Mr. Gong Ting is a director and has an equity interest in during the year ended 31 December 2011.

(iv) An amount of approximately HK$1,569,000 represented a general advance from a related party of which a key management employee, Mr. Zhang Zheng Zhong, is a director and has equity interest in during the year ended 31 December 2011.

(v) An amount of approximately HK$18,202,000 represented a general advance from a key management, Mr. Zhang Zheng Zhong,during the year ended 31 December 2011.

### Key management personnel remuneration

Remuneration of key management personnel of the Group, including amounts paid to the Group's directors as disclosed in note 11, and certain of the highest paid employees as disclosed in note 12, are as follows:

| | **2011** | 2010 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Short-term employee benefits | **2,376** | 3,165 |
| Share based payments | **576** | 1,002 |
| | **2,952** | 4,167 |

Total remuneration is included in staff costs (note 8).

## 35. EVENTS AFTER THE REPORTING PERIOD

- On 31 January 2012, the Group disposed of the entire capital of Guilin Simei and Biotechnology Limited for a consideration of HK$220,000.

- In March 2012, the Company entered into an acquisition agreement to acquire an additional 20% equity interest in LRT. Following completion of the said acquisition, LRT will be owned as to 50% by the Company, and thereafter accounted for as a jointly controlled entity, Details of this transaction are disclosed in the Company's announcement dated 6 March 2012.

- In March 2012, (Cambodia) Tong Min Group Engineering Co., Ltd., a subsidiary of the Company, was not able to meet its profit guarantee for the three years ended 31 December 2011 pursuant to the relevant sale and purchase agreement dated 25 July 2007. As a result, the Company has requested the vendors to dispose of 18.8 million shares of the Company held by them and pay the net proceeds from such disposal as compensation to the Company pursuant to the aforesaid sale and purchase agreement.

## 36. CAPITAL MANAGEMENT

The Group's primary objectives when managing capital are to safeguard the Group's ability to continue as a going concern, in order to provide returns for shareholders and benefits for other stakeholders, and to maintain an optimal capital structure to reduce the cost of capital. The Group's overall strategy remains unchanged from prior years.

Consistent with industry practice, the Group monitors its capital structure on the basis of its gearing ratio. For this purpose the Group defines gearing ratio as total indebtedness divided by the equity attributable to equity holders of the Group. Total indebtedness includes bank overdrafts, bank borrowings, bonds and other interest bearing securities. Equity attributable to equity holders comprises issued share capital, reserves and retained profits as disclosed in the consolidated statement of changes in equity.

The Group's strategy is to maintain the gearing ratio within 100% which is consistent to that of prior years. In order to maintain the ratio, the Group will seek to balance its overall capital structure through the payment of dividends, issue of new shares, repurchase of shares, raising new debt financing or repayment of existing debts.

The gearing ratios at 31 December 2011 and 2010 are as follows:

| | **2011**<br>***HK$'000*** | 2010<br>*HK$'000* |
|---|---|---|
| Total liabilities | **46,140** | 196,367 |
| Total assets | **1,087,378** | 929,622 |
| Gearing ratio | **4.24%** | 21.1% |

The Board believes the existing gearing ratio is reasonable considering the cost of capital and the risks associated with each class of capital.

## 37. FINANCIAL INSTRUMENTS

### (a) Categories of financial instruments

| | **2011**<br>***HK$'000*** | 2010<br>*HK$'000* |
|---|---|---|
| **Financial assets** | | |
| Loans and receivables (including cash and cash equivalents) | **24,099** | 30,207 |
| **Financial liabilities** | | |
| Other payable and accruals | **38,892** | 196,367 |

### (b) Financial risk management objectives and policies

The Group's major financial instruments include trade and other receivables, cash at bank and on hand, trade and other payables, and convertible bonds. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risk (currency risk and interest rate risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. Management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner. There has been no changes to the Group's exposure to the risks mentioned above or the manner in which it manages and measures the risks.

## 37. FINANCIAL INSTRUMENTS *(Continued)*

### (b) Financial risk management objectives and policies *(Continued)*

***Market risk***

*(a) Foreign exchange risk*

The Group's exposures to market risk primarily arise from the effective foreign currency risk in its business segments. The Group operates mainly in Hong Kong, Cambodia and the PRC and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the RMB and the US dollar. Foreign exchange risk arises from future commercial transactions, recognized assets and liabilities and net investments in foreign operations.

The Group does not hedge its foreign currency risks with the RMB, however, management monitors the foreign exchange exposure and will consider hedging significant foreign currency exposures should the need arise.

The Group does not hedge its foreign currency risks with the US dollar as the rate of exchange between the Hong Kong dollar and the US dollar is pegged and fixed within a range. Permanent changes in foreign exchange rates if they arise would have an impact on the consolidated financial statements.

As at 31 December 2011 and 2010, the Group had no outstanding hedging instruments.

*(b) Interest rate risk*

The Group's exposure to fair value interest rate risk arises primarily from bank loans chargeable at variable rates that expose the Company to uncertainty on interest expenses and to bond interest chargeable at fixed rates that provide a comfort zone in controlling the overall interest expenses. The Group's policy is to minimize borrowings at variable interest rates in the interest rate profile. The Group's interest rate profile as monitored by management is set out in (i) below.

(i) Interest rate profile

At 31 December 2011, the Group and the Company did not have any net interest-beraring borrowings. The following table details the interest rate profile of the Group's net borrowings (as defined above) at 31 December 2010:

| | 2010 | |
|---|---|---|
| | Effective interest rate % | *HK$'000* |
| Net fixed rate borrowings: Convertible bonds/Bonds | 9.97% | 174,808 |
| Total net borrowings | | 174,808 |

(ii) Sensitivity analysis

At 31 December 2011, it is estimated that a general increase/decrease of one per cent in interest rates, with all other variables held constant, would decrease/increase the Group's loss and accumulated losses by approximately HK$nil (2010: 1,460,000). Other components of equity would not be affected (2010: Nil) by the changes in interest rates.

**37. FINANCIAL INSTRUMENTS** *(Continued)*

**(b) Financial risk management objectives and policies** *(Continued)*

***Market risk*** *(Continued)*

*(b) Interest rate risk (Continued)*

(ii) Sensitivity analysis *(Continued)*

The sensitivity analysis above has been determined assuming that the change in interest rates had occurred at the end of the reporting period and had been applied to the exposure to interest rate risk for financial instruments in existence at that date. The one per cent increase or decrease represents management's assessment of a reasonably possible change in interest rates over the period until the end of the next reporting period.

The Group is also exposed to cash flow interest rate risk which is mainly attributable to the variable rate bank balances. The Group cash flow interest rate is mainly concentrated on the fluctuation of savings interest rates set by the financial institutions.

The Group currently does not have an interest rate hedging policy. However, management will consider hedging significant interest rate exposures should the need arises in future.

***Credit risk***

The carrying amount of trade and other receivables included in the consolidated statement of financial position represents the Group's exposure to credit risk in relation to its financial assets. The Group's receivables are unsecured to the extent they are not covered by security deposits. The Group believes that adequate provision for uncollectible trade and other receivables has been made.

***Operational risk***

Operational risk is the risk of losses arising through fraud, unauthorized activities, errors, omissions, inefficiencies, system failures or from external events inherent to all business organizations and covering a wide spectrum of issues. The terms 'errors', 'omissions' and 'inefficiencies' include process failures, systems/ machine failures and human errors.

The objective of the Group's operational risk management is to manage and control operational risk in a cost effective manner within targeted levels of risk consistent with the Group's risk tolerance levels as discussed and determined by the Board from time to time.

A formal governance structure provides oversight over the management of operational risks. In each of the Group's subsidiaries, business managers are responsible for maintaining acceptable levels of internal control, commensurate with the scale and nature of operations. They are responsible for identifying and assessing risks, designing controls and monitoring the effectiveness of these controls.

***Liquidity risk management***

The directors of the Company have built an appropriate liquidity risk management framework for the management of the Group's short, medium and long-term funding and liquidity management requirements. In the management of liquidity risk, the Group seeks to monitor and maintain levels of cash and cash equivalents deemed adequate to finance the Group's operations and mitigate the effects of fluctuations in cash flows.

## 37. FINANCIAL INSTRUMENTS *(Continued)*

### (b) Financial risk management objectives and policies *(Continued)*

***Liquidity risk management*** *(Continued)*

The Company's convertible bonds were fully converted during the year ended 31 December 2011. The following table shows the details of the Group's expected maturities on financial instruments for the year ended 31 December 2010.

| | Weighted average effective interest rate | Within 1 year or on demand | 2010<br>More than 1 year but less than 2 years | Total contractual undiscounted cash flow | Carrying amount |
|---|---|---|---|---|---|
| | *%* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| Convertible bonds | 9.97 | — | 260,497 | 260,497 | 174,808 |
| | | — | 260,497 | 260,497 | 174,808 |

### (c) Fair value of the financial instruments

The fair value of financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analyse using prices or rates from observable current market transactions as input.

The directors of the Company consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the financial statements approximate their fair values at the end of the respective reporting periods.

### (d) Natural risk

The Group's revenue depends significantly on the ability to harvest wood at adequate levels. The ability to harvest wood in the concessions and the growth of the trees in the plantations may be affected by unfavourable local weather conditions and natural disasters. Weather conditions such as floods, droughts, cyclones and windstorms and natural disasters such as earthquakes, fire, disease, insect infestation and pests are examples of such events. The occurrence of severe weather conditions or natural disasters may diminish the supply of trees available for harvesting in the concessions, or otherwise impede the Group's logging operations or the growth of the trees in the plantations which, in turn, may have a material adverse effect on the Group's ability to produce the products in sufficient quantities and in a timely manner.

Moreover, bad weather may adversely affect the condition of the Group's transportation infrastructure, which is critical for the Group to supply timber from the timber concessions to the Group's manufacturing plants and customers. The Group's daily operations may be unfavourably affected by interruption of transportation due to bad weather or other reasons.

### (e) Other risks

The Group's sales, purchases and expense transactions are generally denominated in USD and RMB and a significant portion of the Group's assets and liabilities is denominated in USD and RMB. The USD is pegged and fixed within a range and the RMB is not freely convertible into foreign currencies. In the PRC, certain foreign exchange transactions are required by law to be transacted only by authorised financial institutions at exchange rates set by the People's Bank of China (the "PBOC"). Remittances in currencies other than RMB by the Group in the PRC must be processed through the PBOC or other China foreign exchange regulatory bodies which require certain supporting documentation in order to effect the remittances.

## 38. PARTICULARS OF SUBSIDIARIES OF THE COMPANY

| Name of company | Place of incorporation and operation | Group's effective holding | Proportion of ownership interest Held by the Company | Held by a subsidiary | Issued capital/paid in capital | Registered capital | Principal activities |
|---|---|---|---|---|---|---|---|
| Future Asia Management Ltd. | British Virgin Islands ("B.V.I.") | 100% | 100% | — | US$20,000 | US$50,000 | Investment holding |
| Tat Lung Medical Treatment Technology Limited 達隆醫療科技有限公司 | Hong Kong | 100% | — | 100% | HK$142,900 | HK$142,900 | Investment holding |
| Tat Lung Medical Treatment (Shenzhen) Ltd. 達隆醫學技術(深圳)有限公司 | PRC | 100% | 100% | — | US$300,000 | US$300,000 | Development of software for medical equipment |
| Guilin Simei and Biotechnology Ltd. 桂林斯美生物科技有限公司 | PRC | 100% | 100% | — | US$1,000,000 | US$1,000,000 | Development and sale of tropical plants for Chinese drugs and medicine usage |
| China Cambodia Resources Limited | B.V.I. | 100% | — | 100% | US$27,042,548 | US$200,000,000 | Investment holding |
| (Cambodia) Tong Min Group Engineering Co., Ltd. | Cambodia | 100% | — | 100% | US$1,000,000 | US$1,000,000 | Forestry business and development of rubber plantation for latex production |
| Forest Glen Group Ltd. | B.V.I. | 100% | — | 100% | US$42,307,692 | US$200,000,000 | Investment holding |
| Agri-Industrial Crop Development (Cambodia) Co., Ltd. | Cambodia | 100% | — | 100% | US$1,000,000 | US$1,000,000 | Forestry business and development of rubber plantation for latex production |
| Mega Ascent Corporation Limited 高鵬興業有限公司 | Hong Kong | 100% | 100% | — | HK$10,000 | HK$10,000 | Investment holding |
| Mighty Pine Limited | B.V.I. | 100% | — | 100% | US$1 | US$50,000 | Investment holding |
| Crops and Land Development (Cambodia) Co., Ltd. | Cambodia | 100% | — | 100% | US$1,000,000 | US$1,000,000 | Forestry business and development of rubber plantation for latex production |
| Richking Development Limited | B.V.I. | 100% | — | 100% | US$100 | US$50,000 | Investment holding |
| Linkbest System Development Limited | B.V.I. | 100% | — | 100% | US$1,000 | US$50,000 | Investment holding |
| 內蒙古華越礦業有限公司 | PRC | 100% | — | 100%* | RMB12,800,000 | RMB12,800,000 | Coal trading and related logistics service |
| 梨樹縣衛通科技有限責任公司 | PRC | 100% | — | 100% | RMB500,000 | RMB500,000 | Trading business |
| Well Glory Capital Investment Limited 佳茂創富有限公司 | HK | 100% | 100% | — | HK$10,000 | HK$10,000 | Investment holding |
| Famous Sky Corporation Limited 榮天興業有限公司 | HK | 100% | 100% | — | HK$10,000 | HK$10,000 | Investment holding |
| First Resource Equipment Technology Company Limited 第一資源裝備技術有限公司 | HK | 51% | 51% | — | HK$10,000 | HK$10,000 | Investment holding |
| Keen Wood Group Ltd. | B.V.I. | 100% | 100% | — | US$1 | US$50,000 | Investment holding |

* Obtained the control over Inner Mongolia Huayue Mining through contractual arrangement in June 2011.

# Five Years Summary

| | 2007<br>*HK$'000* | 2008<br>*HK$'000* | 2009<br>*HK$'000* | 2010<br>*HK$'000* | **2011**<br>***HK$'000*** |
|---|---|---|---|---|---|
| **Results** | | | | | |
| Turnover | 38,443 | 47,927 | 3,955 | 2,960 | **204** |
| Profit/(loss) from operations | (21,630) | 89,122 | (48,382) | (32,450) | **(51,032)** |
| Provision for a potential loss of a subsidiary | — | (15,655) | — | — | **—** |
| Finance costs | (244) | (972) | (1,381) | (1,457) | **(8,743)** |
| Profit/(loss) before taxation | (21,874) | 72,495 | (49,763) | (33,907) | **(59,775)** |
| Taxation | (24) | (1,500) | — | — | **(1,540)** |
| Profit/(loss) for the year from continuing operation | (21,898) | 70,995 | (49,763) | (33,907) | **(61,315)** |
| **Attributable to:** | | | | | |
| Equity holders of the Company | (21,989) | 68,665 | (49,763) | (33,907) | **(61,312)** |
| Non-controlling interests | 91 | 2,330 | — | — | **(3)** |
| | (21,898) | 70,995 | (49,763) | (33,907) | **(61,315)** |
| **Assets and liabilities** | | | | | |
| Property, plant and equipment | 7,379 | 30,385 | 22,678 | 29,514 | **42,793** |
| Biological assets | 88 | — | — | — | **21,295** |
| Construction in progress | 18,189 | 31,950 | 13,830 | — | **—** |
| Prepaid lease payments | 2,563 | 2,585 | 1,365 | — | **—** |
| Intangible assets | 287,161 | 516,219 | 504,404 | 865,825 | **853,091** |
| Goodwill | — | — | — | — | **18,579** |
| Interest in associates | — | — | — | — | **120,968** |
| Net current assets/(current liabilities) | 89,760 | 93,418 | 6,781 | 12,724 | **(15,488)** |
| Bonds | — | (70,000) | (3,700) | — | **—** |
| Convertible bonds | — | — | — | (174,808) | **—** |
| Net assets | 405,140 | 604,557 | 545,358 | 733,255 | **1,041,238** |
| Share capital | 17,050 | 19,050 | 19,050 | 38,927 | **131,198** |
| Reserves | 381,215 | 575,856 | 526,308 | 694,328 | **910,043** |
| | 398,265 | 594,906 | 545,358 | 733,255 | **1,041,241** |
| Non-controlling interests | 6,875 | 9,651 | — | — | **(3)** |
| Total equity | 405,140 | 604,557 | 545,358 | 733,255 | **1,041,238** |
| Earnings/(loss) per share (in Hong Kong cents)* | | | | | |
| Basic | (10.6) | 19.05 | (13.05) | (6.64) | **(3.22)** |
| Diluted | (10.6) | 19.05 | (13.05) | N/A | **N/A** |

* Restated to reflect the effects of the share consolidation of the Company on 6 October 2010.

## FINAL DIVIDENDS

The directors do not recommend the payment of any dividend for the year ended 31 December 2011 (2010: Nil).

## AUDIT COMMITTEE

The Audit Committee was established with written terms of reference in compliance with Rules 5.28 to 5.33 of the GEM Listing Rules. The Audit Committee's primary duties include reviewing Company's annual reports and quarterly financial reports and providing advice and comments thereon to the Board. The Audit Committee is also responsible for reviewing and supervising the Company's financial reporting and internal control procedures.

The Audit Committee comprises of three independent non-executive directors, namely, Messrs. Tam Wai Leung, Joseph, Chan Kim Chung, Daniel (resigned on 10 June 2011), Zhang Ying and Wen Hui Ying, and has held 4 meetings during the year under review.

The Audit Committee has reviewed the Company's audited annual report for the year ended 31 December 2011 and was of the opinion that the preparation of such results complied with the applicable accounting standards and requirements and that adequate disclosure have been made.

By order of the Board
**Leung Sze Yuan, Alan**
*Executive Director*

Hong Kong, 27 March 2012

*As at the date of this announcement, the Board comprises five executive Directors, namely Mr. Chultemsuren Gankhuyag, Mr. Gong Ting, Mr. Leung Sze Yuan, Alan, Ms. Yu Xiao Min and Mr. Zeng Lingchen; and three independent non-executive Directors, namely Mr. Tam Wai Leung, Joseph, Ms. Wen Huiying and Mr. Zhang Ying.*

*This announcement, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the GEM Listing Rules for the purpose of giving information with regard to the Company. The Directors, have made all reasonable enquiries, confirm that, to the best of their knowledge and belief, the information contained in this announcement is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement in this announcement misleading.*

*This announcement will remain on the "Latest Company Announcement" page of the GEM website at http://www.hkgem.com for seven days after the date of publication and on the website of the Company at http://www.chinaaseanresources.com.*